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THE INSTITUTIONAL THEORY OF ECONOMICS

BY RADHAKAMAL MUKERJEE

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THE INSTITUTIONAL THEORY OF ECONOMICS

By

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CONTENTS

CHAP.		PAGE
	Preface	vii
	Introduction	1
I.	The Dualism between Empirical and Normative Standpoints	11
II.	The Relativity of Economic Environments ..	39
III.	The Interdependence of Economic Norms and Data	65
IV.	The Ethical and Institutional Assumptions of Classical Economics	101
V.	The Sociological Elements in Price Economics	122
VI.	The Theory of Economic and Non-Economic Motivation	151
VII.	The Basis of Social Gradation	170
VIII.	The Theory of Social Institutions	192
IX.	Typology of Contrasted Economic Systems ..	213
X.	The Interaction between Economic and Political Power	233
XI.	The Order of Values and Rights in Economics	259
XII.	The Values of Groups and Institutions ..	283
XIII.	The Norms of Economic and Social Relations	298
XIV.	Critique of the Classical and Marxian Theories of Progress	319
XV.	The Gestalt Outlook	342
	Selected Bibliography	358
	Index	367

PREFACE

In the past economics developed its methodic procedure in consonance with the broad movements of thought of the time. In Adam Smith, and John Stuart Mill in particular, we find a recognition of the significance of the institutional and humane relevance of economics generally. In recent times when the social evils of modern capitalistic industry and bitter class antagonisms have called for comprehensive measures of political control and institutional rearrangement, economics, however, has largely weaned itself from the humane tradition, characteristic of the stage of its rise into importance, and emphasised a rigidly positive analysis in an autonomous sphere, where, nevertheless, both the basic institutional presuppositions and conjuncture constantly change.

Neither modern biology, with its deeper understanding of the social processes of selection and survival of institutions and valuations, nor psychology with its stress of manifold impulses as roots of individual behaviour, and of institutions and cultural conditions in the final shaping of desires, valuations and human relations has much significance for economic analysis. The dissociation of economics from biological and psychological methods and outlook has fostered what John Dewey calls a "metaphysical individualism", the notion that an adequate theory of human behaviour can be formulated by considering individuals apart from the institutional setting, and also a separation alleged to exist between the world of facts and the realm of values. This can only disappear when valuation-phenomena are seen to have their immediate source in biological modes of behaviour and to owe their concrete content to the influence of cultural conditions. The latter is studied by anthropology, politics

and sociology; no wonder that "economic individualism" persists side by side with the neglect of the filiation of economics with these studies, which also have started, like economics, with an abstract, generalised individual, instead of studying human relations and behaviour in their concrete, cultural background.

The change in the outlook in both basal and borderland sciences urgently demands a change of the focus of attention from value to economic behaviour in a larger setting, from discrete individual behaviour to collective mores and institutions, and from the stereotyped institutions of 19th century liberal capitalism to the changing social world of to-day. The clue to economic processes is now increasingly discerned less in the rationality and responsibility of the atomic individual, and more in man's social contacts, institutions and values which constantly modify and are modified by the economic processes. And yet how fondly does economics still cling to the hedonistic view of human nature and social action, to the simple competition postulate of "economic individualism" and to the central scientific assumption, the mechanical analogy, bequeathed by the Classical school, who built their frame of reasoning in steel before the advent of the biological sciences and their many-sided applications to social life and organization.

Far-reaching changes have also come about in the 19th century in industrial technique, organisation and employment, introducing immobility of real capital, monopoly, organized trade-unionism and wage fixation, which have not only created new rigidities and distortions of the circular flow of wealth, effacing the classical state of the objective equilibrium, but also stimulated protectionism and economic imperialism and autarchy, preventing the isolation of economic from political and cultural sphere in the study of causal relations. All these make the earlier social and institutional pre-suppositions of economics somewhat untenable, and even

misleading. As private property and freedom of enterprise have been steadily curtailed, as both state action and centralised planning have spread, and as national and racial standards of behaviour have obscured simple economic incentives, the generalised equilibrium theories of the Classical system, grounded on the subjective equilibrium of individual valuations, have shown their inadequacy, and the analysis of economic situation in terms of new norms has become indispensable. The latter have now largely modified or restricted, and in some countries virtually replaced, the competitive system with its associated legal-economic institutions, notions and outlook, and to this extent made the Classical equilibrium analysis an anachronism.

For it is the task of economics to find out an optimum optimorum under different or alternative institutional framework of incentives, laws, freedom and property distribution, and not the optimum of competitive equilibrium as the goal of economic policy. Neither the institutional framework nor the norms have, however, been precisely defined nor have been subjected to critical examination as economic data or pre-suppositions, derived as these are from the integrated system of indivisible social values as contrasted with the divisible, individual values of the Classical price-cost equilibrium. An adequate analysis of these and a fresh consideration of both the order of social distribution and the motives of production and consumption thus seem essential. For rival economic systems have emerged where the standards of state demand and public welfare prove as effective incentives as "natural liberty", private property and profit.

Human motives and relations, traditions and means of social persuasion and control make up the framework of institutions which give a durable form to man's manifold desires, values and efforts, and which harmonise between individual and social interests and ends, and between one field of social relations and another, regulating the dynamics

of economic equilibrium which is a social, composite and normative rather than an individualistic, single and analytical equilibrium. It is only from sociology that economics can import a real understanding of the essentially social character of the whole movement, shaped as it is by the prescriptive force of institutions rather than by the individual's atomic urges, by the entire system of social ends rather than by the mere economic norm of efficiency. The mere fact that economic efficiency can be measured more exactly by the price-cost mechanism should not preclude economics from the consideration of the integrated system of norms and ends, which alone makes social life possible, and guides the individual in his choice of goods and activities in the exchange economy. These latter derive their meaning only with reference to social norms and ends; economic values accordingly are not causal but symbolic of the social relations which sociology depicts and seeks to analyse quantitatively. It is sociology which, above all, furnishes the realistic middle principles of any historical epoch,—the theory of agricultural communalism, of industrial capitalism, of collective socialism etc.—arranged in order and relative importance that can serve as keys to the interpretation of exchange economy, as categories of a determinate system of economic relations and objective processes in dynamic interplay. The American Institutionalists were right in their criticism of the sociological preconceptions of Classical economists, but did not work out the new sociological findings into economic data, indicating the qualitative structure of social relations in terms of a quantitative order of prices and volumes in the market process. Thus the vital contribution of modern sociology towards the appreciation of inter-relations of various phases and levels of man's social action and analysis of social causation which indicates the continuous intermingling of social data and norms and the economic process hardly influence the corpus of economic theory.

Within an autonomous sphere of "rational economic action" the deductive method pursues its analysis by abstracting man's economic efforts and relationships from the web of group and institutional relations, disregarding the "whole" view of social life that sociology furnishes. The result is that theories are developed which are logically consistent but which are little based on factual data since inadequate, unrealistic and even false premises form their stuff; these gain in complexity, and yet remain below the level of verification, and accordingly often contradict one another. Thus economics becomes reduced in status and scope to that of econometrics, an enormously useful division of economics since it refines and sharpens the logical apparatus of the science but which is not the whole of the science. Statics and dynamics are not engineering. Much less can econometrics be political economy.

More than that. The search for a systematic orderliness of "economic action" within a narrowed, independent and non-interacting field gets the better of the examination of the origins and types of economic institutions and of the relations between the individual and institutions in their different levels of adjustment, which we have analysed into ecological, economic and institutional in an ascending order, and from purposes in which not only the theories of returns and population, price and cost, but also the theories of value and effort, rights and duties emerge. The relation between economic and moral values and the theory of social and economic rights are of special relevance in contemporary economic life with its need of a harmonious coordination of property and work, of law and economic freedom, and of economic and political rights. Nor does economics tarry to consider the working in detail of the changing institutions in the entire background of social and political organization. It is here that concrete economic action and relations of individuals are seen as phases of a coherent system of purposes or ends of individuals and

the society, which show a continuous, reciprocal and progressive adaptation. But many orthodox theorists in their zeal for finding out mathematical uniformities in economic action would consider institutions as fixed, definitive and unyielding, not to speak of directing economic processes and institutions towards new social aims in accordance with the changing whole situation. The formulation of an integrated system of social norms which could be quantitatively expressed by institutional economics, working hand in hand with descriptive and statistical sociology, would remove the present contradictions between welfare economics and price economics as regards the aim of economic action. Where there is divergence of such norms as those of individualism, socialism or collectivism nor are optimal indices agreed upon, it will be necessary to present these as alternatives and compare the probable consequences in the practical social situation. This will not only introduce a flexibility in the logical apparatus of price economics, but will also exclude a pre-judgment of social ends treated as alternative hypotheses or plans in problematic situations.

Political science, jurisprudence and ethics which deal with spheres of social relations that constantly impinge upon the economic process, all have set up and clarified valuable social norms and categories arising out of an ordering of social aims and balancing of the different levels of life in the unity of the cultural process. But these are often unceremoniously disregarded by economics as something disturbing, random or adventitious. Such treatment is facilitated by the fact that the norms or standards imported from the other social sciences often persist in the qualitative form without being transformed into quantitative expressions and relations in economics. The inadequate development of quantitative methods in the other social sciences is in fact in no small measure responsible for the persistence of the Classical methodic procedure in economics. On the other

hand, economics with a view to retain its mathematical elegance and symmetry fights shy of the norms and data from the other social sciences in reconstructing its foundations, and thus fails to give either a true picture of the economic system or an adequate guidance to economic planning and policy in the changing social situation.

In actual life, however, governmental control, economic legislation and planning ground themselves on different aspects of welfare, that are being expressed and measured quantitatively, but are nevertheless sought to be sternly demarcated in the rigidly positive theory. The wide-spread vogue of economic planning, to the aim and technique of which many orthodox economists now subscribe, has introduced a trenchant discussion on the relations between economic theory and economic policy, and on the methodology of economics and the social sciences in general both in England and the U. S. A., following a similar controversy in Germany about three decades back. The opposed standpoints and methods of approach in economics are being presented to-day as irreconcilable, antithetical dogmas. Meanwhile changes in the canons of thought in contemporary biology and philosophy which have drawn the various other social sciences together, obscuring their distinctive boundaries, have increased the ideological gap between different schools of economics,—a gap which remains hardly analysed. Yet no doubt in order that the central core of economic thinking may not shrivel from the dry light of contemporary thinking about life, mind and society, economics must now find a place for the study not only of scarce resources and population, prices and costs, but also of the changing framework of law, public opinion and economic institutions and the interaction between economic and political power and of the relations between economic and other social values and the order of values, virtues and rights in the contrasted theories of institutions, from which alone the true meaning and trend of eco-

nomic life can be derived. The gulf between economic theory and economic policy, between price economics and welfare economics can also be bridged by a recognition of certain social norms in the form of economic rights, and the formulation of certain objective conditions as indicative of the measure in which the economic system serves as a means to the integrated system of social values. As the older liberal capitalism can no longer withstand the challenge of collectivisation, the latter brings to the fore the significance of a theory of basic economic and political rights and freedoms of individuals. For the issue of applied economics is no longer the choice between monopoly capitalism and socialism, but between totalitarian planning, which destroys those democratic controls without which efficiency is bound to turn into exploitation, and democratic planning fully cognisant of the fundamental personal Rights of Man, which have been the gift of the liberal Christian order to the world. These are issues in economic policy and planning from which there can be no escape in both war and peace.

This volume is intended as a contribution towards the reorientation of methods and concepts of economics on relativistic and institutional foundations and towards a co-operation in the social sciences, which might re-establish economic theory on the broad, humane path of the early masters to which the contemporary trends in ethics and philosophy also invite economics.

This study originated in a presidential address delivered before the Indian Economic Association (1933) in which I sketched a theory of economic sociology and of relativity of economic environments, relations and norms. Earlier in my *Principles of Comparative Economics* (1922) and *Borderlands of Economics* (1925) I stressed the regional and institutional background of economic theory and its re-orientation so as to bring it in line with recent advances in human ecology, anthropology and psychology. Several chapters dealing

with methods and inter-relations between economics and other social sciences were also offered as lectures in the Universities in Europe and America in 1937. My thanks are due especially to the Universities of Cambridge and Oxford, and the Institute of Sociology in Great Britain, the Universities of Cologne, Prague and Vienna on the Continent, and of the Columbia University, New York, and the Universities of Chicago, Wisconsin, Minnesota and Michigan in the U.S.A. for the opportunity I obtained for presenting the aims and methods of ecological and institutional economic theory. Recently the University of Delhi have laid me under obligation by inviting me to deliver a course of Readership Lectures under the Sir Kikabhai Premchand endowment. I owe acknowledgments also to Prof. C. J. Broad and Mr. D. H. Robertson of Cambridge, Prof. Ernest Barker of Oxford, Prof. Adolf Weber of Heidelburg, Prof. Othmar Spann of Vienna, Prof. F. H. Knight of Chicago and Prof. J. W. Commons of Wisconsin for valuable discussions relating to the present scientific status and scope of economics and its relations to the other social sciences. To my pupil, Mr. Sushil Chandra, I am indebted for aid in the preparation of the index.

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INTRODUCTION

The Significance of Mill's Middle Principles of Sociology

There is great uncertainty nowadays as regards the aims, scope and status of economic science. In spite of the warning by J. S. Mill about the dangers of deductive reasoning and his stress of the interdependence of the various aspects of social life, English and American economics has mainly relied on the deductive method, and treated all extra-economic forces as outside its ambit. It has even disregarded the influence of class structure on economic relations, and of national differences in wages and standards of living on the employment of labour and capital, the study of which Mill especially mentioned as of immediate service to economics. Mill made in this connection the famous statement which has been much misconstrued that the laws of production "participate of the character of physical truths;" while the distribution of wealth "is a matter of human institutions solely".

Much more than in Mill's days the question of distribution has become a subject of class conflict, and economic laws, unable to resist the influences emanating from class conflict, lose their force. In the modern industrial society not merely the changing relationships of labour and capital and functions of the state but also the forces of economic nationalism demand that economics should obtain the assistance of psychology, politics and sociology in modifying its logical postulates. Not only were these uncritically accepted in the era of most rapid economic changes in human history, but Walter Bagehot after deducing these from the economic organisation of Occidental civilisation frankly

contended that outside the pale of the latter society is either "uneconomic" or "pre-economic". The entire course of world economic history preceding the Industrial Revolution was dismissed as of no account on account of the exigencies of abstract speculation! Mill never lost his anchor in conscious social and ethical purpose, and conceived of a science of ethology or psychology of institutions, which would yield the significant "middle principles of sociology" governing the so-called laws or uniformities of rational action in the economic field. But this thread of Mill's thought found in his *Logic* has been lost by the later Classicists.

Recently Robbins, who belongs to the Classicist group in England, has revived a thoroughly neglective procedure of economic analysis, initiating a trenchant discussion on the limits and significance of economic theory. Instead of the economic man of English Classicism, who was long ago buried by the historical school in the Continent, and whose mortuary rites were later on celebrated with such *eclat* by the institutional school in America, he has envisaged an abstracted aspect of social behaviour which is concerned with the disposal of scarce means as the field of economic analysis. He has taken his cue from the Vienna school, which distinguish between endogamous and exogenous forces that operate in the economist's universe. Now the abstractive method of economics laid the foundations of a sound economic policy in an age when freedom of competition and enterprise, the destruction of the privileges of the landed aristocracy and the removal of all restrictions on the movement of goods and persons were the conditions of economic progress. The ideology of those times was also characterised by the supremacy of abstract reason and by the notion that logic was the sure road to universal truth. Economics, which was first among the social sciences to develop a set of consistent and respectable "scientific" principles, has played no small part in bringing about a crisis in Western culture

through its apotheosis of self-interest and individualism, rational thought and purpose, and the pecuniary scale of valuation.

A social science which deals with the means and ends of individuals in a social environment cannot, however, disregard the relation between its own range of instrumental ends to the entire system of means-ends chain in society. Economics which for its analysis of particular aspects of social behaviour deals exclusively with the relations between scarce means and certain instrumental ends envisages relations between individuals that are in their nature symbolic rather than causal, deriving their value from the institutional norms and patterns which surround and over-reach them. Such relations cannot be adequately explained without reference to a common set of sociological theory—Mill's "middle principles"—which underlies the analysis of all phenomena in the separate social sciences.

The Interaction of Economic, Social and Political Norms

We have here sketched a method which does not minimise or supersede economic analysis, but rather presents an area of "consistent" economic action of individuals under the limiting conditions of a given economic system. This area which is the economist's universe, where economic forces may be considered as approximating a hypothetical norm, however, overlaps and intersects with other areas of "consistent" social action, fields of the other social studies. It is the norms derived from these studies that have regulated and modified the individualism of the English Classicists, and replaced it by establishing a "social minimum" in the fields of labour, protection or property and elsewhere. It is from here that a new conception of the state has superseded that of the Utilitarians, a wide-minded economic policy and governmental control have replaced the old *laissez-faire* doctrine,

and new principles of collective economic planning and management have emerged. In the early 19th century when economic doctrines and norms were first crystallised capitalistic and democratic society was just beginning to take shape. It was then possible to isolate in some measure economic from social and political norms. By the middle of the 19th century the situation of the working class became miserable, even worse than during the preceding century; while in another few decades capitalism largely transformed itself from an individual competitive to a collective-corporate type. The development of organisations amongst industrial workers and employers in the last few decades, and the restriction of emigration not merely led to a decline of the adaptability of costs of production, but also increased the need of state regulation of economic life. While in the economic sector the management of currency, regulation of migration and wages and the construction of enormous public works by the state represented a profound transformation of the older regime of the *laissez-faire*, the mental outlook of the people was also changed. The development of both political and industrial democracy and of corporative and class organisations, and the new loyalties and conceptions of social justice to which these have given birth have brought about a change in the social and institutional situation which an economist must take into account in order that his analysis may not be unreal, or that society may not seek economic and political ends incongruent with each other.

The Theory of Institutions

Classical economics, Marxian economics, Fascist economics and Soviet economics are all instances of institutionalism, each presenting new incentives of labour and enterprise, new patterns of ownership, competition and political action, new norms of social harmony and progress, which change the mechanism of price and cost and the laws of supply and

demand in the context of the market. Any definitive economic system, liberal-capitalistic, collective-socialistic or rural-communal, cannot be understood without reference to a theory of institutions. This theory has to be reached both by deductive reasoning as well as by inductive studies in social anthropology, history and social psychology. The outlook here becomes at once abstract and regional, analytical and normative, historical and comparative. Since the individual is not a discrete and separate atom, as the social sciences taking their cue from the older psychology and biology would have it, but rather like the atom of the new physics, dependent on the cosmos and at the same time a cosmos in itself, economics must adopt a different method of analysis. Economics must base itself on a kind of social psychology which reveals the vital unity of the individual and the society, a unity which is more fully revealed in the individual's conduct and in social institutions than in his set instincts and overt desires.

The problem of methodology in the social sciences resolves itself, then, into the problem of the relations between the individual and the society, and their reciprocal relations to the environment. We have conceived these relations in the economic field as organismic, integrating three levels or categories of economic environment, ecological, mechanical-technic and institutional, in which different kinds of equilibrium are involved. The main task of economic science is now to shift the analysis from only one and partial level of equilibrium and relations to the functional relations, coordination and subordination between the different levels of equilibrium making up the total whole economic situation. The analytical equilibrium carries along with it the individual to a condition in which a normative, collective or institutional equilibrium is reached, and involves a gradation of relations and norms. Yet the laws of technique, marginal utility and evaluation which govern the respective orders of equilibrium

are identical in the social experience, social behaviour being in the concrete an integral whole though for convenience of analysis treated in various abstracted aspects. Economics thus becomes complementary to politics and ethics and *vice versa*.

A theory of economic policy can develop more systematically than at present by defining, in the first place, the institutional patterns peculiar to particular economic systems or civilisations, following the typological procedure carried out so successfully by Max Weber and Sombart. Secondly, by assuming the norms and value judgments of the other social sciences as socially accepted data and "conditions", adopted as "constant" for the purpose of economic analysis. Thus the institutional and normative standpoints may help each other, though at the same time within a given set of social-historical conditions certain uniformities of economic action are established. These would vary from the *laws* of returns and population in the ecological level to the *norms* which are statistical generalisations of past experiences in the price and cost equilibrium, and the *ideals* in the institutional plane, which would be as different as there are societies, civilisations and individual outlooks. Yet a continuous self-analysis of sociological principles and pre-suppositions might obviate the dangers of an anarchy of individual perspectives and evaluations which are to be shunned no less than the barren static formalism of an abstract economics approximating itself to the positive sciences.

Need of a Critical Examination of the Pre-Suppositions of Economics

The sociology of knowledge helps towards a critical examination of the logical principles and postulates of the various systems of economic thought. It yields two important conclusions which are relevant to a discussion of metho-

dology in economics. First, it is now realised that the belief in the supremacy of reason as the universal and all-pervasive guiding principle of social behaviour is the outcome of an older crisis in European culture due to the conflict between man's traditions and institutions and a new orientation of impulses and interests after the Industrial Revolution. Rational will and individual choice play a much lesser rôle than what the founders of the various social sciences, who have made the individual the starting point of their analysis, and logical action the social norm, imagined.

Secondly, the social sciences, although these have benefited from the study of gregarious instincts and various mental patterns which bind individuals to the society, and which are now recognised to be a part of their organic make-up, have studied the expressions of the social instincts and sentiments mainly in the spirit and background of class conflict. The struggle of the economic classes has supplied the key to both the social process and individual behaviour and experience. The social sciences, therefore, due to the peculiar economic and social situation which competitive capitalism, built by coal, iron and steam, created in nineteenth century Europe, took the class structure and the class attitude for granted as constant conditioning factors, spread a dismal determinism, and led to a divorce between an idealism in philosophy, education, art, and literature and a cynical happy-go-lucky attitude in the social studies. In the background of a kind of social life, where groups crystallise on the basis of segregated sets of motives and interests, where the rational-contractual relationship becomes the standard and invades the family, the kin, the church and other vital modes of association, and where the mutilation of the personality and the fractionalization of the community life support each other, the social sciences cannot but have a limited perspective, and even help towards social atomization or disintegration of those habits and dispositions which the persistent natural groups that

have not been entirely eclipsed by the Great Society still engender. The present mechanistic views of life and mind strengthen the social sciences in their non-organismic, non-evaluative outlooks. On the other hand, the sharp antithesis between individualism and collectivism in every field of social thought bears ample testimony to the chronic conflict in the unconscious racial background between the formative habits of thought and culture as modified by machine and technology in Europe.

As long as repression and inner segregation persist it becomes difficult to envisage an organismic view of the relations between the individual and the society. Fundamentally there is no conflict between them. For the individual who at first depends upon the community, yet demanding the enlightened guidance of social standards and sentiments, later on acquires his independence based on personality and wealth through conscious participation in social valuations. It is the institutions which offer him an easy guidance in such participation, and prevent the conflict between levels of values which threatens both social solidarity and personal achievement. Thus 'ethical personalism' does not imply 'sociological individualism.'

The Economic System, a World of Instrumental Ends

The sociology of knowledge through a critical analysis of its own logical framework of conditions and postulates leads the way towards envisaging an economics in which the society becomes prior to the individual, who exists only as re-made, re-fashioned and articulated by institutional guidance, and in whom both primary instincts and rational will and choice are moulded silently, but none the less successfully, by the society's scheme of evaluation and judgments. The economic system here is the world of means for cultural and personal values. What are useful in economic relations and values are the result of what is good in the ends of individuals

and the economic institutions by which these are integrated with the ultimate system of values. In so far as the former do not give access to the latter they fall short of their appropriate functioning in the inclusive personality—social process.

The class, the guild, the caste, the community or any other group system is to be judged with reference to both economic and social ends, and economic equilibrium means at the same time cultural equilibrium. An adequate method in economics will in future recognise behaviour and personality as a functional whole, a vital and re-active part of the society, representing for the individual the true kingdom of ends or values, a closely knit organic whole. Such values impinge upon all concrete economic activities and relations, and make the concrete economic equilibrium far different from the individualistic equilibrium reached by abstracted economic forces conceived mechanically. Institutions harmonize between instincts and reason, between individual and group interests, and between intrinsic and higher and instrumental and lower ends. These establish not an analytical individualistic equilibrium but rather an inclusive, normative social equilibrium in which the individual participates through a process of compounding of individual with collective ends. New orientations of interests and ends bring about changes of economic relations and values, and underlie new patterns of institutional equilibrium embracing the individualistic equilibria. But the institutional equilibrium is the result not of an automatic adjustment of economic, social and political forces working their way to a maximum economic welfare and harmony, but of deliberate planning and control in which a collective integration of the system of ends is achieved. It is an institutional theory of economics which in both its realistic and normative outlook can do justice to a relativistic but adequate analysis of man's economic activities and relations, and bring these in relation to the unified and interactive

system of ends of individuals and of society, thus bridging the present gulf between economic theory and economic policy.

CHAPTER I

THE DUALISM BETWEEN EMPIRICAL AND NORMATIVE STANDPOINTS

The Reaction of Economics against Individualism

The prospects of economics were never so uncertain as in the present epoch. The last European War initiated endeavours towards a rational ordering of the industrial society which have extended and deepened, and often made it impossible to explain prices and distribution according to the 'natural laws' based on the economic individualism of the Liberal School, old and new. In different economic fields we find the state aiming at regulating competition and private property, and, indeed, at fighting the laws of supply and demand, which an English economist once characterised as 'baying at the moon'. The post-war state has, in fact, emerged as a *quasi-feudal* organisation, with its comprehensive and far-reaching plans and reform measures, and has originated such divergent causes of economic friction as can no longer be explained away by any plan of abstraction or schematisation. The ancient 'natural laws' of political economy have not only shown their inadequacy within the economic community, but these can no longer wholly explain the economic relations between the nations in a regime of economic autarchy. The level of prices or the rate of exchange, or again, the flow of metals and commodities from one country to another can be interpreted adequately neither by the older balance of trade theory nor by its modern counterpart, the theory of the purchasing-power parity, these being determined by a whole host of complex and shifting factors and circumstances determining the standards of in-

dustrial living and national self-sufficiency and the peculiar position of the country in the scheme of world economy and politics.

No doubt the entire economic reform and legislation movement coming in the wake of the romantic, historical and socialistic schools of economics as well as the emergence of new motives and modes of production in the Russian, Nazi and Fascist economic experiments have proved the narrow, individualist Anglo-French doctrines more and more untenable as guides to the interpretation of the economic environment, of which both the aims and fundamental institutions are being rapidly transformed. The Great Depression after the last war was one of the serious crises in world economic history both in the industrial and agricultural fields, and greatly intensified the pre-war tendency of state management and control of industry and trade. The regulation of the cultivation, finance and sale of all kinds of agricultural produce with a view to eliminate fluctuations in their prices was thorough and detailed among most of the agricultural countries. Governmental planning and intervention as well as an exaggerated policy of protectionism and autarchy were intensified previous to the present war in Europe. On the other hand, the mobilisation of all resources and organisations under state planning for building armaments further increased governmental control, association and monopoly, and reduced the flexibility and adaptability of forms of private enterprise. Since 1930 governmental planning and regulation of economic life with a view to protection against the economic and political consequences of the depression have in fact introduced structural changes in the economic system in many countries. The idea of economic planning which has found its converts in countries outside the Soviet administration is itself fundamentally opposed to the logic of both economic individualism and Marxism. While all this shows the poverty and perplexity

of economics, in no epoch have economic forces moulded social and political development so effectively. In the present reaction of economics against the rationalistic and individualistic movement of the past generation it pins its faith neither in the glorification of self-interest and individual self-sufficiency nor in the blind operation of fury of the class conscious herd let loose by a crumbling social edifice, but seeks an entirely predictable, just and rational economic order in which the economic means are deliberately made to subserve the ends of the State as the real cultural entity overriding the claims of the individual—the unit and the focus of Classical thinking.

If the situational adjustment be the mode of bringing economic means in articulation with the ethical ends and possibilities of society, economic theory undergoes a marked transformation and institutional reform or experimentation becomes on principle thoroughly indispensable and practical.

Various trends of thought and influences contributed to bring about the change in the angle of vision. The Darwinian theory, as applied to society, made it impossible to regard as sacrosanct the "existing" systems of property and institutions. Institutions like all things grow and decay, and the descriptive pattern in economics could no longer be formal and mechanical. Among the Classical writers the notion of progress towards a free and orderly society was present, but social development, in the hands of the evolutionist, gradually weaned itself from the notion of logical or mechanical necessity. Once the reality of incessant change and adaptation to new conditions came to be recognised, the role of the constructive activity of individuals and of the state assumed a new import. Thus the entire outlook towards institutions was transformed in spite of the fact that the nucleus of economic thought yet clung tenaciously to the eighteenth century philosophy of a free society of discrete rational individuals. Individuals, again, the new physical and biological sciences made

strikingly clear, are not given, constant data; but they are made and re-made by groups, classes and institutions. Not merely the new basal sciences but the rise of the historical schools, socialism, German idealistic thought and the stress and strain of mass standardised production and developing class antagonisms had all stregthened the movement towards institutional economics. Again, the conception of the culture state as the guardian and symbol of social peace and well-being that came from the Continent gradually overcame the economist's suspicion at encroachments upon freedom of contract and private enterprise. The supersession of the older individualistic idea of the police-state by the collectivist idea, first of the culture-state and then of the totalitarian state, accompanied an increasing complexity of domestic, social and economic institutions and international economic relations, demanding the close supervision of the state over private business operations which often crossed the boundaries of nations. The change from the older structural to the modern functional psychology, which emphasised the cardinal importance of the group for behaviour and consciousness, led to the burial of the economic man, cribbed, cabined and confined in the Classical economist's rusty framework. Above all, the emergence and recognition of sociology as the central co-ordinating and comprehensive science had a marvellously quickening effect in orientation and perspective in economics. Sociology changed the focus of importance from the rational individualism of the older economists to the myriad and changing groups, relations and institutions in imperfect, reciprocal adjustment. It demanded, above all, the description of economic relations and institutions in dynamic, pragmatic terms.

The Gradual Change of Economic Pre-Suppositions

The new orientation may be characterised briefly by three main trends in economic analysis:

(*a*) Although the economists are mainly concerned with the description of the actual economic structure and processes, the idea that the present industrial structure has something rigid or definitive about it is now discarded; and the relativity of such institutional norms as private property, competition and the scheme of distribution as well as social attitudes and traditions concerning these which serve as the foundation of the economic processes, receives adequate consideration. The historical school of German economists culminated in the attempt of Schmoller to treat economic theory as a part of general sociology. Schmoller regarded the Classical theory as "a premature generalisation". Not only did it disregard the function of morals and law in economic life, but it also exaggerated the importance of the individual by overlooking social formations of which he is a part. "Only after an examination, from all possible angles, of those elements in economic life which have so far been insufficiently studied, particularly the "psychological-ethical" factors, will there be a science of economics "in the strict sense of the term". Schmoller's attempt was continued and has been intensified in the systematic works of Franz Oppenheimer, Werner Sombart, and Othmar Spann. Sombart, who has in particular carried forward the traditions of historicism, and broadened the social and philosophical foundations of economics, regards it as essential that economic science in order to arrange its materials must have a systematic conception like that of the "economic system" which he defines as a unitary mode of providing for material wants, animated by a definite spirit or set of purposes, motives or principles determining economic behaviour, regulated and organised according to a definite plan, and applying a definite technical knowledge. He differentiates between a number of historically extant economic systems, each having its own economic disposition or complexion. For him political economy is the study of economic systems. From this the develop-

ment towards comparative (social) economics was inevitable; but this could not be achieved due to "the narrow-minded devotion of the younger historical school to hard facts", as also to the lack of an adequate attention to the universalist and sociological factors, which, as Spann rightly observes, remained in a great measure unconscious.

(*b*) The state as the ultimate moral and economic guardian of the community is no longer regarded with jealousy by the economist, and its activities for the direct encouragement of industry and trade, prevention of exploitation of monopolists, conservation of natural resources, insurance, unemployment, poor relief, co-ordination of the interests of labour and capital and the development of social services generally are no longer treated as interferences but as its legitimate functions. This had been chiefly the first reaction of Marxism but was strengthened by the rise of a new political philosophy in Germany and Italy. The development of radical and socialist parties with economic programmes fighting within or outside the State aided the final rejection of the *laissez-faire* policy, and the tendency towards collectivisation. International socialism, syndicalism and economic regionalism, as developed in France, and economic internationalism, as fostered by the League of Nations, all sought modes to fashion inter-state or super-state organisations based on principles which command as much allegiance as the state. Much progress was, indeed, achieved towards the establishment of world economic security, particularly in respect of the basic raw materials and food-stuffs. Wheat, beef, sugar, tea, whale-oil, rubber, tin, aluminium and other commodities were already controlled on a world-wide or European basis although most of the schemes were very young.[1] Thus while the functions of the state have been enlarged, the orthodox doctrine of the unity of political sovereignty

[1] *European Order and World Order* (P. E. R.).

also has proved itself inadequate in the light of the sociological study of groups and associations as the liberal (individualist) politics and economics. Meanwhile the role of the free and responsible individual and modes of association, which has been made familiar to us in Anglo-French liberal political theory, has been repudiated by the totalitarian political theory, which stresses economic security in place of personal freedom, and the collective social purpose in place of individual interests. The logic of events in the economic and social fields is, however, compelling international approaches and solution, and thereby inducing a reconsideration of the relation between nationalism and wider groupings, whether that nationalism is represented by parliamentarism or by dictatorship in the new kind of collectivist society.

(*c*) The economist benefiting from the developments of social psychology has reached a more adequate theory of human consumption and welfare, and instead of accepting the economic system as normal evaluates it according to the fulfilment of the various desires and interests derived from the processes of production and expenditure among the various sections of the population. There is not only imported a human and ethical significance to wealth and its uses, but the motives of production and schemes of distribution and public expenditure also are analysed with reference to social and moral aims,—all in a dynamic environment of material methods and standards of welfare. This has been the outcome of the gradual, and as yet mostly unconscious, infiltration of psychological and ethical principles into the field of economics.

With the acceptance of a socially acceptable standard of wealth and happiness as contrasted with a purely pecuniary standard, the economist subordinates the process of price-fixation to the former, and enters into a consideration of the just price, fair wage or adequate profit. Not merely does he find out the criterion of a just distribution, but he also con-

cerns himself with "the purposiveness of the net product, that is, with its relationship to the aims of the state and civilisation". The transition from a factual, descriptive to a functional science becomes thus inevitable. This movement is still under way. Nothing contributes to this transition more than the tardy but sure recognition that economics is a sub-division of sociology, where the pioneers such as Spencer, Ward, Bagehot, Kidd and Durkheim early put forward an evaluational system as their ideal.

Methodology in Germany based on 'Understanding'

In the Continent an important controversy as regards the rôle of value judgments in the social sciences was focussed at the end of the last century by Wilhelm Dilthey who combatted John Stuart Mills' logic of the moral sciences (*Geisteswissenschaften*) and Comtian sociology that followed it, and in their place aimed to establish a system and methodology based on an "understanding" (or sympathetic intuition and interpretation) *sui generis* of history and society. A compromise was later on worked out by the sociologist Max Weber in his doctrine of "ideal types" that are to take the place of mechanical laws, which the Western social sciences posited, and by the economist Warner Sombart, and his *Geisteswissenschaft*. Sombart replaces the two older forms of political economy, the "value judging" and the "law finding", by a third, a kind of synthesis of the former two, to be called the "understanding" (*Verstehen*) from the peculiar relationship and immanent character of this knowledge.

Three types of "understanding" are distinguished by Sombart: (1) The "understanding" of meanings (*Sinnverstehen*) is the means by which we grasp the timeless elements in the great historical structures. Its problem is "understanding" the structure and eternal nature of the forms of culture (*Kulturideen*), religion, art, science, law, industry, state, language. It attempts to "understand" the forms of sociali-

sation, man's social nature; the forms in which socialisation is realised, such as group, power, society, community, leadership, occupation, rational, irrational, traditional, etc., as well as the unique forms of specific cultures. It attempts also to "understand" the "ideal types" which we form, the regularities which we construct, and the artificial conditions we set up to aid in seeing historical connections. In the sphere of economics "abstract understanding" implies the analysis and stress of both the spirit and potential constituents of an economic system. Sombart shows how economic systems differ due to varied combinations of economic outlook, regulation and institutions and technology. These represent the essential elements of the economic process, giving definite meaning to production, productivity, market, value and consumption. (2) Factual "understanding" (*Sachverstehen*) is concerned with the realised objectivations of mind, social structures in their real natures and historical settings. It approaches these by establishing the manifold relationships (*Sinn-und-Sachzusammenhänge*) in which a given fact may be seen. Its applications to the sphere of economics are, first, the stress of the historical approach as the indispensable approach to any economic theory and of the notion of a unity of innerly correlated phenomena and relationships within a particular economic system. (3) Psychological "understanding" (*Seelverstehen*) is occupied with the search for causation; causation in a sense in which the concept must be rejected by the natural sciences. These causes are only the motives of human acts. The problem of sociology is to see a specific occurrence as the result of a specific motive within the given historical situation. Sociology is not concerned with the motives for individual occurrences or of individuals, but with average motives, with typically recurring sequences of motives and with the formation of "types" of motivation. On the one hand, we approach the limits of "understanding" when we leave the realm of culture, and enter that of the natural facts

on which it is based; here we enter the cognitive field of the natural sciences. On the other hand, we are entering the sphere of metaphysics when our "understanding" leaves that of experience.[1] In the realm of economics "psychological understanding" means an insight into the motives of an economic system. According to Sombart every economic system rests on a peculiar psychic constitution of the people that produces its own outlook or *ethos* where all the motives, norms and values originate. Sombart distinguishes between the mechanical causality manifest in the sphere of nature and motive causation in the sphere of culture. Causal enquiry in the sphere of nature, according to him, leads to metaphysics. "In cultural happenings, however, causality is an evident reality that I can verify in every human work". Science is to Sombart the common basis for objective evidence, while empirical knowledge which is that of economics does not furnish ultimate truth, neither does it judge what is good or bad, just or wrong. The latter he leaves to the philosophy of economics, which contains an ontology inquiring into the inter-relations between the constituent factors and conditions of the economy, a cultural philosophy which deals with the cultural values of the prevailing economic system, and an ethics concerned with the goals.

The discussion relating to differences of modes of arriving at knowledge in the positive and cultural sciences has proceeded in Germany much further than it reached in the hands of Sombart. The aim of positive sciences, it is urged, is to present and analyse data objectively without any point of view that remains individually conditioned. "The approach of *Geisteswissenschaft* rests upon the recognition," observes Barth Landheer, "that living man and reasoning man have grown together," that man is not a "cold demon of reason". "Understanding" is derived from the

[1] *Schriften, Deutsche Gesselschaft für Soziologie* 208-247, 1929; Plotnik: *Werner Sombart and His Type of Economics*, pp. 81-91.

individual's own perspective and the slant of his specific historical epoch. *Geisteswissenschaft* are no doubt the outcome of specific individual and ethical valuation; yet just as all legislative efforts may be reduced to and derive a common meaning from the concept of justice, so the concept of science is based upon the supposition that it is possible to arrive at a common understanding through reasonable explanation. Just as the aim of science is to subject its own principles and pre-suppositions to self-criticism, so a critical examination of the personal biases and cultural assumptions of competing minds is necessary for obtaining "scientific" knowledge in the field of the cultural sciences. Edward Spranger has shown that it is the common elements in different universes of discourse that form the unifying bond in what otherwise would be an anarchy of scientific viewpoints. In the social sciences, according to him, "the objectivity resulting from the desire to understand, the subjectivity of the individual perspective and the absoluteness of the critical approach are all mysteriously interwoven. Direct attention to the object and subjective evaluation may participate in unequal measure. The many-sided sympathetic understanding which is permeated by the richness of intellectual life is predominant in the aesthetic, contemplative humanistic type". For science, in any case the point to which all systems can refer is clearly the idea of truth. The methodological efforts to trace divergent systems of science along with divergent logical systems to a higher unity is commonly designated, since Hegel's time, as dialectics. Through this method the *Geisteswissenschaften* may, in the end, be able to overcome the present logical and methodological crisis.[1] This renewal of dialectics as evident in the work of Rothacker seeks to reconcile antithetic principles which are surmounted by a third. The Continental concept of *Geisteswissenschaften* contained valuable elements

[1] Barth Landheer: Presupposition in the Social Sciences, *American Journal of Sociology*, 1931-32.

for the inevitable recognition of the peculiar rôle of values in the whole range of the social sciences. Professor Brinkmann observes: "The lasting merit of the German idea of the *Geisteswissenschaften* is that it has drawn attention to the impossibility of the uncritical parallelism frequently found in the Western social sciences between mechanical evolution in the naturalistic sense, and a rigid system of values thought to be realized through the 'progressive' unity of evolution."[1]

Influence of Dewey on the Logic of the Social Sciences

It is necessary to refer in this context to the instrumentalist thought of Dewey and its influence on the logic and methodology in the social sciences. From Dewey's standpoint problems in the social sciences grow out of actual problematic situations, and are related to some hypothesis, which is a plan and policy for existential resolution of the conflicting social situation. Inquiry into social phenomena thus involves judgments of evolution for they can be understood only in terms of eventuation to which they are capable of moving. Any problematic situation when it is analysed presents in connection with the idea of operations performed alternative possible ends in the sense of terminating consequences. Social facts can accordingly be understood in so far as their bearing is seen, and "bearing" is a matter of connection with consequences. Social phenomena are so interwoven with one another that it is impossible to assign special consequences (and hence bearing and significance) to any given body of facts unless the special consequences are of the latter differentially determined. This differential differentiation can be affected only by active or "practical" operations conducted according to an idea which is a plan. The plan is a hypothesis, according to Dewey, which is directive of practical operations, not a truth or a dogma. Dewey exa-

[1] See his article on the subject, *Encyclopaedia of the Social Sciences*, Volume VI, p. 601.

mining the logical form of Classical political economy observed that its theoretical conceptions were not regarded as hypotheses to be employed in observation and ordering of phenomena, and hence to be tested by the consequences produced by acting upon them. They were regarded as truths already established, and therefore unquestionable. Nor were the conceptions framed with reference to the needs and tensions existing at a particular time and place or as methods of resolving ills then and there existing, but as universal principles applicable anywhere and elsewhere. Similarly the current social theories of Individualism versus Collectivism or Socialism, or the generalisation that all social phenomena are to be envisaged in terms of the class conflict of the bourgeoisie and proletariat are of the nature of all-or-none contradictory "truths", which prejudge the characteristic traits and the kinds of actual phenomena that the proposed plans of action are to deal with.[1] Dewey not merely stresses that the immature state of social inquiry is measured by the extent to which the operations of fact-finding and of setting up theoretical ends are carried on independently of each other, with the consequence that factual propositions on one side and conceptual or theoretical structures on the other are regarded each as final and complete by itself by one or another school. He also points out that one of the chief practical obstacles to the development of social inquiry is the existing division of social phenomena into a number of compartmentalized and supposedly independent non-interacting fields, as in the different provinces assigned, for example, to economics, politics, jurisprudence, morals, anthropology, etc., and suggests that there is an urgent need for breaking down these conceptual barriers so as to promote cross-fertilisation of ideas, and greater scope, variety and flexibility of hypotheses.

[1] Dewey: Logic: *The Theory of Inquiry*, pp. 504-512; also *Theory of Valuation, International Encyclopædia of Unified Science*, Vol. 2, No. 4.

The Stress of Ethical Implications of the Economic Process in Sociology

Meanwhile in both Europe and America the "historical materialism" of the Marxists rejected the value judgment in the sociology of Spencer, and looked upon wrongs and injustices in a given social system as the outcome of the inevitable workings of material and economic forces. While in the Continent socialism with its class-consciousness and bitterness and its appeal to the strategy of organised violence has stood for the doctrine of rationality and class interest, Anglo-Saxon economics has been based on the ideal postulates of reason and self-interest of individuals. Both systems of thought gave no clue to social values and their fundamental inter-twinings with economic values and relations or with the external framework of economic freedoms and institutions.

Precisely on this issue the sociological writings of Tonnies, Scheler, Giddings and Bougle are significant. Tonnies is indebted to Maine's theory of the relation between status and contract, and adds a criterion of "values" in his community and association phases of the development of modern capitalism. Thus, as Brinkmann observes properly, "where Maine's decisive insight into the peculiarities of a regime of status, of habitual and traditional social organisation, was chiefly derived from the tribal customs of non-European peoples, Tonnies' 'community' principle was meant to apply first and foremost to the broad and deep understructure of traditional life on which European rational civilisation itself rests, from which it probably draws its best forces, and which accordingly might be capable of healing the deadening and emptying influences of its counterpart, the 'association' or 'contract' principle'. The influence of Tonnies' work on both sociology and economics has deepened in the Continent, and now extended to America. Another important

influence in the assimilation of the theory of social values into economics has emanated from the sociological writings of Scheler, which are linked with the phenomenological theory of ethics. Scheler regards Comte's law of the three phases of development of the human mind as the product of the mental attitude of the scientific and mechanistic nineteenth century society, and that Comte's three determinative principles, religion, metaphysics and "positive science" instead of being subordinated in a chain of development ought to be co-ordinated in a parallelism of fundamental and unchanging needs of the mind. Scheler constructed a new triad of social phases passing from racial through political to economic organisation, and his theory of social process as composed of spiritual "determinants" and material "catalyzers" seems at last to reconcile the inheritance of German idealism with that of Karl Marx.[1] Giddings in America similarly revised the laws of social development enunciated by Hegel, Comte and Spencer, and his triad of stages of civilisation are the military and religious, the liberal-legal, and the economic and ethical. In the last stage of civilisation humanity works back through law and framework of rights to the economic foundations of society, and accomplishes the tasks of social and economic re-organisation. Giddings observes: "It is out of the economic evolution that we get a true ethical evolution and a development of science, and only as we do get both ethics and science can the economic evolution continue to the full achievements of its possibilities". Here, again, are stressed the ethical implications of the economic process, the function of society being regarded as the evolution of personality. Similarly Cooley, whose "primary group" includes all those relationships which are vital and spontaneous, as in Maine's

[1] For an estimate of Tonnies, see Wirth's article in the *American Journal of Sociology*, Vol. XXXII, November, 1926; for Max Scheler, see Brinkmann in the *Publications of the American Sociological Society*, Vol. XXI.

status and Tonnies' community, analyses the social context of the market as the institution for pecuniary valuation, and presents a naturalistic treatment of values inseparable from the social process.

The school of French sociology led by Durkheim and Bougle has also stressed evaluation as the very essence of the social process and the interpenetration of various kinds of values. Thus Bougle follows Durkheim in asserting that opinion plays a role in economic values, and that a principle of unity should be established in the world of values by sociology.

Anglo-Saxon empiricism and German historical materialism so far established the claims of a jealous autonomy for economics; but the modern trends in ethics and sociology and the limitations of the present economic system, which have proved incapable of placing the values characteristic of civilisation within the reach of all, are forcing the recognition that economic values and ultimate values are not to be separated "like so many apples which one is to put into two baskets".

The Ethical Foundations of Spann's Universalism

The only system of economic thought which has, however, reared itself on ethical and sociological foundations is the universalist system of Othmar Spann, which rejected the individualistic, rationalist, analytical approach of the West. According to him an economy is in its objective aspect "the selection and adaptation of means to ends"; all economic phenomena are therefore "organic parts of a structure of services". The ideas of organic relationship to a whole, and of service ability in regard to the whole are applied to every primary economic action and unit. Economics in Spann's view is not concerned ultimately with prices but with performance, production. But the economic life also has functions higher than the satisfaction of material wants.

The correct starting point for the analysis of value is the idea of service (*Leistung*), and the service rendered by any unit of any commodity is at once unique in kind and inseparable from an organic total service in the individual economy, enterprise, nation and world economy. The true general principle is that things necessary for the achievement of the result are equally important. Comparison is to be made by ranking successive stages and areas of inclusiveness in the total economic process, not by measuring factors. Relevant physical magnitudes, utilisation of measurable means, set a minimum for price, while the real values of higher services, such as political relations and past inventions and discoveries set a maximum. The actual point at which prices settle is to be explained only in terms of a complete discussion of social and historical conditions. The whole is prior to the part, the society to the individual, who exists only as constituted, formed and articulated by society. The whole always inheres in the part and the part exists by participating in the whole. The most important social whole with respect to economic life is the state, which creates "capital of higher order" in the form of laws and directing agencies, which are the indispensable means of economic activity. Yet the series of part-whole relations which culminate in the state do not end there. If world economy has a less effective unitary organisation than national economy, it has the advantage of being the highest step or stratum of unity. Society is a spiritual entity *sui generis*, a necessary precondition of the life of the individual, and for this reason perforce an entirely ethical, and not a merely "utilitarian" structure. The principle of universalism or collectivism is justice, the allotting to every one his due ("distributive justice"). Its aim is to uphold the collectivity, but only because this is regarded as the sustainer of the individual, who cannot achieve a spiritual and moral existence except as a member of the collectivity. In the consideration of society as a collectivity,

Spann keeps distinct two views, the formal and the material conceptions of society. Society is in its essence an organic unity (*Ganzheit*). The heart of this organic unity consists in spiritual community; the life-spring and essence of human society consists in spiritual community. For this reason society comes to view primarily as realised in partial wholes (*Teilganzheiten*), such as science, art, religion, philosophy, etc. These, one may say, are the sub-totalities (*Teilganzen*) of the objective mind. The behaviour of human beings is to be understood as a secondary element, which, however, has the quality of actualising or unfolding the spiritual reality of society. In brief, the formal conception of a society would be, "A society is a spiritual totality (*Ganzheit*) made manifest in action". This formula embodies three points: (1) totality—that is, the most general form or essence of society; (2) spirituality—a further qualification of this totality characterising it as a non-biological (non-protoplasmic) unity in contradistinction to the animal or plant organism, and as one whose primary character is spiritual; (3) activity—the second attribute of the social totality. Activity should be viewed in two ways: first, in a purely instrumental aspect, as for example in economic activities (economy is a means to an end); second, as the very unfolding or realisation of the spiritual entity. It has already been emphasised that organic reality (*Ganzheit*) is revealed in its members. But the whole does not manifest itself in ultimate uniform parts, but rather in smaller totalities. The first phase of this self-realisation is found in the partial totalities, or as Spann calls them, "Objectification-systems". Society never presents itself to view as absolute society, but always exclusively as a determinate form of association or partial totality of society such as the economic system, the state, law, etc. Sociology becomes, first, the theory of all the partial totalities of society, and second, the general theory of the main principles of all the special social sciences. The basic concepts of the special

social sciences are thus identical, for they are all taken from general sociology. They all become normative and evaluative sciences. One cannot really understand how a thing is without understanding how a thing *should be*.[1]

The Rise of Institutionalism

The system of collective economics has grounded itself in Germany on the established philosophy and ethics of Fichte and his successors, and has become the foundation of modern German social reform. The influence of this collectivist thought in the West has not been so significant because of its ardent and uncompromising opposition to the framework of Anglo-Saxon economic thought based on the isolation and liberty of the individual. In the Western countries the spread of scientific socialism contributed to strengthen the challenge of the institutions of property, inheritance and freedom of contract either as systematic premises of economic theory or as ethical values, and led to the gradual infiltration of ethical values into the norms of maximum net satisfactions and social welfare. Patten and Fetter in America, Hobson, Tawney, Clay and Cole in England, and the French solidarists have struggled against individualism and the abstractive procedure in economics. Several other writers have either challenged wholesale the legal framework of capitalism or limited their attacks on capitalism to the neo-classical concepts of rent, quasi-rent and profits, or, again, regarded the Classical economic theory as an obsolete and unreliable guide in face of the growth of trusts and monopolies and of Governmental activities under which the old automatic market process of earlier capitalism no longer works.

As economics becomes institutional and evaluative economic theory also co-ordinates itself with the concepts of the

[1] Barth Landheer: Othmar Spann's Social Theories, in *Journal of Political Economy*, Vol. 39, 1931; Spann's discussion of methodology in *Gesselschaftslezlehre*.

other social sciences even as in economic practice a problem however specialised cannot be treated adequately in isolation, but with the standpoint and assistance of the various social studies. Indeed, the development of institutional and functional economics as a specialised sociology foreshadows a co-ordination and unification of all the social studies, as wide-minded as Comte conceived, but now strengthened beyond his imagination by the scientific tools of measurement and statistics. The general meeting ground of the social sciences is sociology, and it is by cultivating and acquiring the sociological standpoint that economics will gain in new concepts and their integrated, evaluational application.

One of the chief drawbacks of the historical school in Germany was that though it initiated a vigorous programme of economic reform and legislation, it did not pay adequate attention to economic theory. A similar criticism is now being applied to the institutional school in America and elsewhere, which has shown no keenness for economic concepts, and exhibits the danger of lapsing into description and empiricism. The reply of the institutionalists to this criticism has been that they are less interested in constructing a tight and consistent system of economic thought than in perfecting an instrument for analysing economic problems, and directing economic policy, and that the inherent emphasis of institutionalism upon social change precludes them from laying down invariant laws.[1] But the lack of a coherent body of economic principles in either the German historical or the American institutional school is the chief reason why the Classical and neo-Classical trend of thought still dominate in England and in certain centers throughout the world although the marginal utility school has well-nigh disappeared from the Teutonic countries and is now replaced by the institutional school in Scandinavia and America. On the other hand, a large num-

[1] Max Lerner reviewing Commons: *Institutional Economics* in *Harvard Law Review*, Vol. 49, p. 361.

ber of economists who follow the Classical tradition have gone much beyond the economic theories of value and distribution, and, in so far as they have dealt with economic institutions and welfare of the community in a broad scientific spirit, have obvious affinities with the institutional school. Marshall, for instance, in his *Industry and Trade*, which is markedly different in its outlook and treatment from his *Principles*, is occupied in the main "with the influences which still make for sectional and class selfishness; with the limited tendencies of self-interest to direct each individual's action on those lines in which it will be most beneficial to others." Similarly Pigou's *Essays in Applied Economics* are dominated by the ameliorative trend and a sympathetic consideration of the social and ethical issues. But these works are yet different from those of Sombart, Veblen, Mitchell, Commons or Hobson, pioneers among the institutionalists.

The chief reason why institutional economics, whose advent was celebrated with so much eclat in America, proclaiming "the barrenness of premature senescence which has existed in economic science", could not show marked achievements immediately was that the study of human behaviour, on the basis of which reconstruction was sought, proved too flexible and inexact for a science which still did not discard the old, mechanical, atomistic ideology. McDougall's list of instincts, to which Mitchell extended the most cordial welcome, expanded, according to the findings of the laboratory method, and in any given economic situation or system a number of instincts was seen to be blended. On the other hand, Veblen's instinct of workmanship could not be treated as an instinct. Trotter's herd instinct which offered an easy explanation of such phenomena as a rigid adherence to the accepted standard of living, to fashions and conventions and of the psychical mechanisms in business cycles was itself reducible into simpler pre-potencies of behaviour. It is true that the psychologist's enumeration of instincts has not

been final nor exhaustive, but the instinct psychology has been fruitful for the restatement even of the Classical theory of economic incentives. The acute controversy in the field of psychology, associated with rise of behaviourism and *Gestalt* psychology, and the vogue of psycho-analysis, however, have fostered a hesitant attitude. Some sociologists and economists doubt whether their sciences require any psychological postulates at all. A trenchant discussion was initiated in this connection by Faris's paper: "Are instincts data or hypothesis?" The adherents of the British tradition now turned round, and argued that the general theories of utility, value and equilibrium do not rest on the adequateness or inadequateness of hedonism or associationism, but that the notions of marginality and equilibrium retained as much validity when instincts and desires and habits are regarded as urges of behaviour in man's economic relations as when only the economic man, actuated solely by a deliberate pursuit of the maximum of pleasure, is postulated. This position is obviously untenable. Othmar Spann has summarised recently the criticisms levelled against the idea of marginal utility in the Continent. Beyond doubt such criticisms have remained unanswered. Some of these have been expounded by Fetter and Hobson, but it is unfortunate that most books of the Anglo-French tradition do not consider these at all. For orthodox economic theory the search now, as it has been in the past, is for the economic order as registered in the price equilibrium. The latter is conceived as reached through a rational balancing of cost and satisfactions. Psychology has changed the older view of human wants, satisfaction and behaviour, and described how these spring from man's manifold instincts and unanalysable and changing instinct patterns, and how these are fashioned in large measure by technology and institutions. The theory of instincts and of their integrations and repressions now furnishes the adequate, scientific ground for the analysis of economic motives and satis-

factions and of economic and social relationships, while it also fosters a preference for concrete economic studies. From the *Gestalt* school, which stresses the notion that an organic assemblage of facts is perceived as a unity not pieced together in the psyche fact by fact, economics derives an adequate understanding of the relations between the individual and his groups. All this subordinates the individualistic and the Classical atomistic notions of causality and marginalism, and encourages an analysis of the inter-play of economic and other interests, attitudes and values, and of the entire institutional and cultural pattern.

The new economic theory no longer attempts to reduce the exchange process to some ultimate determinants like marginal desiredness, but traces the historical behaviour of prices, and the actual functions of consuming, working, purchasing, investing etc., as expressions of man's manifold instincts, habits and interests, derived not from rationality but largely from his social and institutional influences. In some measure institutions and technology appear accordingly to replace the price system conceived as a register of wants and satisfactions even as in psychology the concept of behaviour is proposed as a substitute for psyche the dissection of which into sensation elements was the objective of the older associationistic school.[1] The concept of value also now forms "a minor technical aspect of economics, not its whole scientific scope", and while economics obtains from psychology an adequate, scientific explanation of the influences of economic motives, institutions and technology upon the behaviour of man, it provides the economic data on which a rational system of value judgments and social control could be based in a given social situation.

Another line of defence of the older standpoint is that the postulates do not matter if the system of thought built

[1] See Ayres: Ideas of Human Nature and Motivation, *American Economic Review*, Supplement, March, 1936.

upon them exhibits its internal consistency. Thus the utility of fictional first principles which is expounded in Vaihinger's philosophy of the "As if" is Allyn Young's justification of the Classical system even though for the matter of argument its psychological assumptions might be proved inadequate or wrong.

The New Conception of Life, Mind and Society as an Integral Whole

There is, however, no pre-ordained framework in which a science must move. The content and method of such basal and antecedent sciences as ecology, biology and psychology will gradually modify the content and method of economics, which grew much more rapidly, and found itself provided with a steel frame by the Classical economists. The notion of absolute law following from a logical or mechanical necessity in economics will accordingly yield its place to a hypothesis, plan or trend holding good in a particular social situation. The categories of cause and effect will, then, be less stressed than those of adaptation and mutual inter-dependence. Economic interests and relations will be found to impinge upon other social interests and relations. Thus the materials furnished by the other specialised social sciences, such as anthropology, social psychology, history, politics and ethics, will overlap those of economics, and consequently not merely will their respective territories impinge upon one another, the more active and fruitful science playing the rôle of a trespasser, but there will also be an interpenetration of their assumptions, concepts, approaches and results. For the social process represents a unity and integration, which academic specialisation must recognise in order that the concrete practical problems of a dynamic society may be successfully tackled. An excessive schematisation, indeed, prevents complete integration of both the specialised study and the cultural totality. It on account of compartmentalisation that some of

the most fruitful studies in the social sciences are being carried on to-day in the borderlands which may be the legitimate field for any specialised study.

The social sciences in the nineteenth century made the mistake of starting from a generalised and an abstract man, instead of studying him and his attitudes and behaviour in their actual social setting. We were, therefore, furnished with abstract concepts and symmetrical and balanced systems in economics, law, politics and anthropology, which could not stand the test of empirical observation and historical generalisation. During the last few decades several philosophers and historians also discovered keys to the social process, whether geographical, economic, psychological or anthropological, which they regarded as universal, applicable to the evolutionary advance of humanity as a whole. Here, again, evolutionism showed a strong predilection for schemes of uniformity and of identical or analogous stages. In recent years, the applications of the historical and comparative methods to the different social sciences have, however, led to the recognition of multi-linear human evolution, and the schemes of regular stages and parallel developments have completely broken down. Where social evolution follows different series and stages, it cannot be confined to the Procustean bed of the Hegelian dialectic or of its more modern counterpart, the law of general stages of culture. The Marxian theory of cultural evolution, however, still holds the field stressing the transformation of society and culture as derived from the economic struggle between the classes. On the other hand, the idealistic school of sociologists suggests that the economic interpretation of history disregards the significance of the immanent transformation of the human mind which is the *sine qua non* of social change. Neither social change operates except through the medium of the mind, nor does the mind operate in a social void. Again, where significant changes in economic conditions take place, these

cannot be separated from the spheres of change in the family, in group organisation, in law and in politics. It is the task of the social investigator to understand man, his behaviour and his culture with reference to the whole of his social *milieu* in reciprocal action and inter-action. Every change in the social situation, however small, indicates that man also has changed. Every change however delicate in the human personality, accompanies changes in the complex texture of man's social relations. Man and his culture, and the particular social structures and situations which nurture them, are part and parcel of each other. It is the complex web of forces which bind man to his particular social situation, and which yet lead him beyond and upward indefinitely, that has to be separated into distinct threads in a new social analysis.

The Functional Conception of Culture and Progress

The recognition that evolutionary change applies to culture as an integrated whole is as old as Herbert Spencer and Wundt. It was the latter who particularly criticized the intellectualism and individualism of the older evolutionists, and stressed that culture cannot be understood without a full consideration of the creative and cooperative apperception and activity of the group. The practice of interpreting savage society by taking into account its fundamental attitudes and patterns of behaviour and its historico-regional settings and contacts has now become common among the functional school of anthropologists led by Rivers, Malinowski and others. But the functional conception of culture and progress as an integrated whole has not won ground in the fields of economics and politics. The economic processes are still interpreted in terms of conflicting individuals and their choices rather than of organic functions, interests and "value judgments" in society. We still find the majority of social theorists not only sticking to individualistic terms and con-

cepts, but also tracing separately the development of different aspects of culture such as economic, political, and ideological. The culture and mental outlook of the collective-socialistic or the rural-communal economy are fundamentally different from those of a capitalistic economy. Each economic system nourishes its own peculiar mentality and patterns of behaviour, its peculiar legal arrangement and group organisation in politics. Max Weber has shown that the different forms of the organisation of power and the varying importance that attaches to different classes in society are decisive for the peculiar mentality that differentiates social groups and nations. In substantiation of the assertion that the mental attitude of a group is conditioned by its class character he takes numberless instances from all the Eastern and Western religions. It is thus that economic transformations and changes in social situations react upon religion, morals and belief, on the entire mental attitude and patterns of behaviour of the people.

Man and his patterns of institutions, behaviour and value judgments can be understood only in the context of a changing, integrated whole. It is from sociology that we expect the broad sweep of vision in the present era of social disorganisation, which comprehends the total situation as a whole, embracing man, his groups, his loyalties and his ideologies in ceaseless interaction. Even here there is an attempt on the part of certain schools of sociology to view social change in the light and spirit of class struggle, which has engendered a gloomy determinism or to stress only those forces which tend towards a harmonious balance of contradictory elements in society, promoting an ideal of drift and inactivity.[1] Perhaps a wide-minded sociology of knowledge, *Wissenssociologie* with a more adequate understanding of the limitations of the

[1] Mannheim: German Sociology, *Politica*, February 1934; also *Man and Society*, p. 232.

present social institutions in the West and a better appraisal of other *milieus* might pave the way to a deeper interpretation of recent social changes, and direction of the course of social evolution along smoother channels. The sociology of culture, which has developed in the present crisis in the continent of Europe, often yields false social laws and supports anti-social attitudes and patterns of culture.

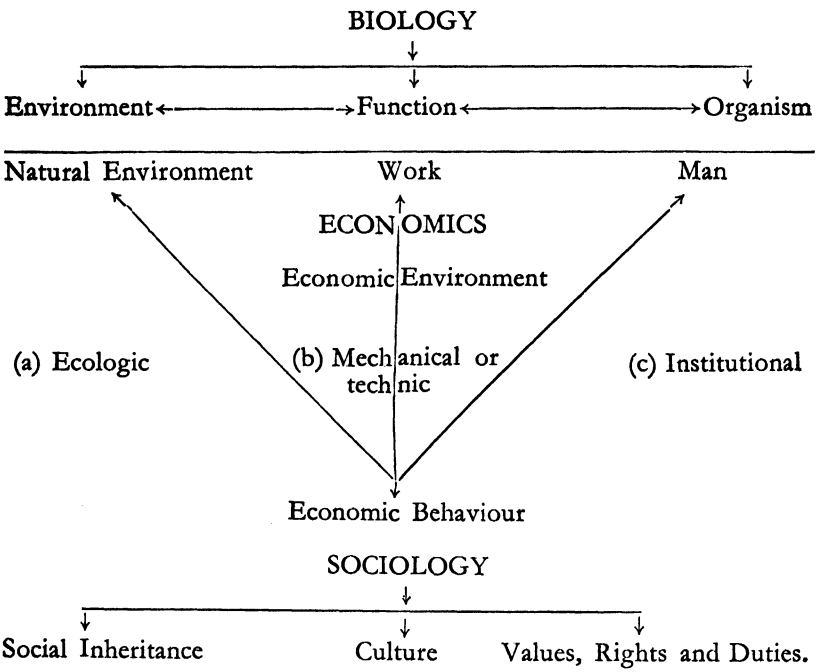
In a rational direction of economic evolution value judgments play a peculiarly important rôle as the changing social reality. Sociology seeks to abolish the dualism between factual and normative positions and methods, and between mechanical evolution in the naturalistic sense and ethical evolution, which is still prevalent in economics. In the new economic theory the ban on value judgments is to give way to a critical analysis of their structure and the connection between economic and ultimate values, regarded not as rigid systems, but rather in the more flexible expression of the changing social process. The instrumentalist thought developed under the stimulus of John Dewey in America, and the phenomenological theory of ethics in the hands of Scheler and Hartmann in Germany are now helping towards the reorientation in economics.

CHAPTER II

RELATIVITY OF ECONOMIC ENVIRONMENTS

Three Orders of Economic Environment

The cultural process is what it is, a bundle of problems set for the different social sciences. Primarily, it implies collective or group adjustment to environment—the field of general sociology. Economics is concerned with that phase of group adjustment to environment, which imposes upon individuals a limitation in the use thereof. Economic behaviour represents collective responses or reasonably uniform patterns of conduct elicited by the same restricted environment (as it is made up). The natural environment is organised and reshaped in man's economic relations into three types of environment, which condition economic behaviour: (*a*) Derivative ecologic—the field of ecological economics, (*b*) Derivative mechanical—the field of economic technology and price economics, (*c*) Derivative institutional —the field of institutional economics. The following diagrammatic representation will explain:



The first type of economic environment (*a*) ecologic, represents the inter-action between man and the region, both being modified in the process. Both, therefore, should be regarded not as independent or separate entities but as parts of an ever-shifting process of equilibrium in which are implicated man's economic security and the permanence of his handiwork, civilisation. The economic environment (*a*) ecologic, comprises:—

(1) Climate and topography as governing the arts of utilisation.

(2) Land resources.

(3) Mineral resources.

(4) Water resources.

(5) Plants used for food and raw materials.

(6) Animals used for food, raw materials and power, micro-organisms, insects and parasites.

(7) Man's inter-relationships with the entire ecological organisation as indirectly affecting economic life.

This composite ecologic complex sets the limits and possibilities of economic life.

The second type of economic environment (*b*) mechanical or technic, represents the traditions of utilisation, the arts of production and man's heritage of wealth, invention and equipment employed in the modification and utilisation of the natural environment.

The economic environment, (*b*) mechanical or technic, comprises:—

1. Tools, weapons, machines, capital and technological equipment of all kinds.
2. Systems of production, shelter, storage, communications, transport and public utilities.
3. Mechanisms of exchange, money, banking and instruments of credit.

Man's technic-mechanical acquisitions are the index of his freedom from the bio-ecological laws and processes. But as these latter partly control and set limits in the way of economic processes, so do the technological equipment and processes partly control social institutions and culture (historical materialism).

The third type of economic environment (*c*) institutional, represents the organisation of social relations, institutions and attitudes, traditions, beliefs, science and cultural values in which the life economic is more or less harmoniously set.

It comprises:—

1. The State.
2. Social groups, relations and institutions. Private property, competition or custom.
3. Law, tradition, convention and public opinion.
4. Standards of social values and ideologies.

When ideas, emotions and valuations express themselves in the form of durable and well-distributed patterns of behaviour and groups, enduring through a replacement of

human beings which manifest them, these constitute institutions. Such institutions are implicated in all individual and social behaviour. Consequently these determine the course of economic activity and standards of economic relations. It is the institutional environment which gives the normative rules and ideals, derived from man's social experience as an integral whole, which control and regulate economic behaviour.

Three Levels of Economic Equilibrium

Economic behaviour thus represents a three-fold collective or cooperative adjustment in which three distinct levels of equilibrium are involved: (*a*) An adjustment to the soil, water, plants and animals, to the ecological complex, which evolves the labour, occupation and economic type that can best utilise the resources of the region. The ecological community, including man, acts as a whole, bringing to bear upon the environment only the surplus of forces remaining after all conflicts interior to itself have been adjusted. (*b*) A balancing of work and wealth, of the net dissatisfactions and the net product (with its money price) in the economic organisation which is woven within the frame-work of the ecological area. (*c*) A collective adjustment of economic values to the standards of worthy and complete living (the idea of personality) through a compounding of economic and cultural interests, traditions and attitudes. Three aspects of economics are accordingly distinguishable: (*a*) ecological economics, (*b*) economic technology and price economics, and (*c*) institutional economics.

The ecological phase of economics correlates with human ecology (which is distinct from geography), the branch of a comprehensive science of a balance of the species, which treats man as a competitor with plant, animal or insect for food and a place in the sun. Such fundamental concepts of social ecology as adaptation, balance, optimal population and succes-

sion, which ensure for the different parts of the biotic community a reciprocal climax in a region, have important bearings upon economic theory. The bulk of the existing literature in economics is concerned with the second phase, technology and the price process; a tendency is, however, discernible of leaving the technological principles connected with industrial management, business organisation, transportation, tariff system, public utilities, etc., in the hands of specialists. The institutional and functional phases of economics correlate economics with all the other social sciences, and with ethics and *Kulturgeschichte*.

Thus the complex phases of economic equilibrium and inter-relationships, (*a*) economic-ecological, (*b*) economic-technological, and (*c*) economic institutional, comprehend the three fundamental sub-divisions of economics as a specialised sociology. Such an orientation would avoid the abstractive and neglective procedure followed in economics through an exclusive stress on the second order of equilibrium and relationship, *viz.*, that between products and disutilities and their measurement by the pricing process, and permit an easy sojourn into the border-line fields of other social sciences and also into relevant non-social fields. In this scheme, ecological economics is really a sub-division of economics or ecology or anthropo-geography, and institutional economics a sub-division of economics or social psychology or cultural history or social philosophy, but are logically fields for specialised sociologies.

The Scope of Ecological Economics

Any given economic system such as the economy of the primitive peoples, the agricultural communalism of India and China and the capitalistic economy of Western Europe and America can only be characterised by an analysis, of its three sets of constituent conditions and factors, corresponding to the three levels of collective action *viz.*, (*a*) its distinctive

ecology or the man-land ratio, which determines and selects the regional economic type, skill and labour, and arts of production in relation to resources and human numbers, (*b*) its specific mode of reaching the equilibrium between costs and exchangeable objects and services, and (*c*) the specific framework of values and norms, institutions and controls which regulate the arts of production, technology and the pricing process. The fundamental adjustment of population to resources, the type of mechanical technology, exchange and marketing process and the forms of property and social relations and institutions are largely implicated in one another. Neither the arts and tools of production or capital goods, nor price and cost and the marketing process, nor, again, the institutions of property and competition and the regulation of the mechanism of prices and costs can be understood without reference to a given economic system. It is a comprehensive theory of institutions, and the notion of a specific economic system based on this, that alone can relate the various single aspects of economic life to the economic system as a definite, empirical reality. But while synthetically a given economic system is to be envisaged by ascertaining the economic-sociological whole situation, an analysis of the separate constituent factors of economy, which give rise to various economic types or systems, will be a corrective to orthodox economics which has conceived of one universally valid economic system in its conceptual purity, neglecting both regional and social-historical processes. The association of economics with all those social sciences from geography and anthropology to social psychology and cultural history, which deal with social origins and typology, will broaden the area of economic generalisations, establish the relativity of a given economic system at any given historical epoch, and encourage pragmatism and institutionalism as far-reaching methods in economics, turning away from untenable *a priori* reasoning, from fixed principles, closed systems and pretended absolutes

and origins.

No doubt the most active and fruitful movements of economic thought today are the studies in ecological and regional economics and in institutional and functional economics, fully cognisant of the technique of geography, psychology and sociology, and reminiscent of the methods of nominalism, positivism and pragmatism.

Ecological economics seems in a fair way to be worked out satisfactorily by the human geographers and sociologists. Three lines of research are distinguishable—

(*a*) The study of ecologic adjustment of the arts of living, of economic adaptations and classification of economic systems, types and zones. It is not merely that in the marsh, lake shore or sea coast there will develop fishing industry and fishermen as contrasted with agriculture and the peasantry in the plains. But the types of skill and labour, the price and cost and the marketing processes, the economic relations between groups, the social structure and the mental outlook of the people become different. There is a reciprocal adaptation of region, human skill and labour, economic type and social organisation in the different natural regions, which is more basal than what the superficial contrasts between mining, industrial, fishing and agricultural economies, familiar to us in economic history, indicate. Economic tradition and social history tend to nourish the economic system most appropriate for the utilisation of resources and possibilities of the region. It is such materials on which we draw for the ultimate factors in determining regional economic types and for inter-regional comparisons.

(*b*) The study of occupational balance in an economic system as underlying the spatial and food relations of a community. It comprises a survey of the distribution of social institutions and social traits in different natural areas, localities and regions and of intra-group competition and cooperation, social mobility and social distance. This throws

new light on the mechanisms and causes of economic change, its effects on different grades of society and on the culture of the community as a whole. Social stratification is different in different economic regions, and the pattern of social and economic class, group organisation and occupation has reference not only to ecologic resources or the man-land ratio but also to the culture of the community. Comparative social economics can accordingly be based only on the scientific classification of social differentiation and distance in various economic types, regions and systems.

(*c*) The study of the natural balance, albeit a shifting one, of the entire ecologic complex comprising different parts of the living and the non-living world. This furnishes important clues to the laws and optima of economic returns, population and standard of living, and the policies of conservation of natural and human resources, and coordination of the stages and mutual inter-dependence of the various economic procedures. Modern geography has developed the fruitful idea of the economic integrity and solidarity of a valley section. Afforestation in the mountains, grass-land management in the hill slopes and intensive farming in the plains help one another. On the other hand, the ascent of cultivation to the hill sides, deforestation and depletion of pastures, the meandering of rivers and recurrent floods and exhaustion of fertility and under-ground water store have been associated with the decay and ruin of many civilisations.

Ecological economics lays down certain fundamental and universal limits, which the ecologic processes impose upon the economic processes. If we have economic laws, kindred to those of the natural sciences, many of these will be found obviously in the field of ecological economics where the relations between successive phenomena are more uniform and invariant than in the fields of price and institutional economics, here the variables being too many, or the functions too complicated. A fundamental law is that of optimum

returns. The economic law of diminishing returns is a part of the wider law of exhaustion of Nature's store and of gradual and advancing sterility, denudation and desiccation. There is a mutual give and take between the inorganic and the living world, enmeshed in an over-spreading and complicated web of life.

Human ecology sees man surrounded by forces which pass around, through and beyond him, linking his life with the whole of Nature in ways that are sometimes incomprehensible. Man, his economic processes and experiences and the region are part and parcel of the life-process, that continually shows not only differentiation and uplift, but also and always a certain rhythm and organisation. Man cannot with impunity exercise his powers of aggression against the land, waters, trees, grasses and animals, against his habitat. For if he overstrains and snaps the vital threads which he can only partially unravel, and upsets the ecologic balance definitely against him, the phenomena of diminishing returns would be quickly in evidence. Indeed, the dictum, 'After man, the desert', is applicable to regions and cultures which on account of population pressure unconsciously or wilfully disregard the inter-twining of the vital threads and the obligation of bio-economic co-operation. Man and land being regarded as mutually dependent factors, the only possible law is one of inter-articulation. Thus a purely mathematical or mechanical treatment of the laws of returns is ruled out of court by ecology. Yet the laws of balance and inter-relations, optimum, organisation and succession derived from ecology, though less precise than the physical laws which do not apply to organic systems, are nevertheless no less serviceable in presenting laws of change or orderly sequence in economics.

The ecological law of returns, specifically the tendency to diminishing returns, is supported by another natural law, that of optimum population. The study of animal popula-

tions in the laboratory and wild nature shows that there is an optimum density for rate of reproduction, and the optimum density is maintained in animal populations through the smooth, harmoniously working mechanisms of breeding habits, food chains, parasitic controls and movements of animals. In wild nature there is a rhythm and balance of increase of all animal groups in an ecological area, and the automatic mechanisms of control establish an average abundance and life-span for all animals in the complex life-community. Among the social insects and higher mammals more complex mechanisms of control of numbers are in operation. Mutual disturbance, caused by excessively numerous physical contacts or economic pressure, limits the reproductive rate as well as the multiplication of reproductive individuals in the nests and colonies of gregarious insects, and leads to swarming. Physiological specialisation, control of birth and sex through starvation or regulation of food, colonisation and actual massacre of drones, all regulate numbers in insect communities. Among birds and gregarious mammals such 'psychological' factors as instincts and habits of nesting, defence, courtship, breeding, schooling and play indirectly limit increase. At the same time animals at the end of food chains control their numbers by a slower rate of breeding. Man with his perennial sex life as contrasted with the sex periodicity of most animals and his closer association between the sexes that his economic organisation brings about, has abolished the ecologic controls of nature, and superseded the self-acting regulating mechanisms of animal increase by the elastic and more complex social-psychological factors of instincts, habits and traditions. These, however, often fail him in his adjustment to the region. Thus he brings about a dis-equilibrium by lavish and spendthrift use of the region's natural resources or by excessive growth of numbers. In the nineteenth century, with its marvellous technological advances in agri-

culture and industry, development of communications and means of transport and expansion of new colonies brought under the ambit of inter-national trade, the ecological man-land ratio, which is the basic concept of Malthusianism, could be overlooked. The decrease of birth-rate in most European countries for a quarter century before the first world war also decreased a fear of over-population.

In the twentieth century after the phenomenal multiplication, promoted by industrialism and achievements of medicine and public hygiene throughout the world, the post-War economic struggles between the industrialised nations preclude a world pooling of resources and inter-national adjustment of surplus population and exploitation of unused, man-less regions. Thus the ecologic laws of returns and population controls are reasserting themselves, and the population problem tends to become more one of balance between man and the region than that of distribution of wealth and balance of economic power among the classes. The socialistic emphasis of the latter aspect was derived from the maldistribution of wealth and economic opportunities peculiar to capitalism, and such emphasis will no doubt persist. As new countries in the tropical and sub-tropical world will become industrialised, the scarcity of essential raw materials of industries and shrinkage of markets will, however, inevitably force a renewal of agriculture so long neglected so as to stabilise employment, and lead to a new balance of occupations among the more industrialised nations. Population increase in the Orient and in the tropics, promoted by the introduction of industrialism and modern sanitation, will not only gradually limit the world markets of the more advanced nations, and bring about new shifts of occupations, but will also enforce agreements relating to unrestricted migration and abolition of the present dual standard of living due to the maldistribution of population and resources.

Social survival would depend not merely on an institu-

tional adjustment appropriate for the most efficient use of resources, skill and arts of production, but also on the maintenance of such numbers appropriate to the available essential natural resources. The ecological criterion of an optimum population is furnished by the maximum average expectation of life, which is a fair index of an all-round economic and cultural achievement. Such a criterion is derived from the trends of animal increase, and is capable of quantitative treatment. The concept of the optimum population is, however, a composite or integral one in which the adjustments in the ecological, technic and institutional levels are harmonised and rationalised into a realistic social policy of the state. From the level of adjustment of numbers to ecological conditions emerge the demographic optima of maximum longevity and conservation of resources. The criteria of a permanent equilibrium in the mechanical-technic situation are maximum employment and standard of living. Finally, the criterion of national security will be deemed essential for finding out the true equilibrium in the social-historical situation. The scientific positive basis of a population policy, therefore, must combine the three criteria to the extent properly required *viz.*, longevity, national income (and consumption) and national security. Only a synthesis of this kind would prevent a people from following social policies that may neglect biological vigour or the conservation of natural resources for the sake of technological efficiency or political security in a regime of international competition and balance of power. The ecologic criterion of maximum longevity, the economic criterion of maximum per capita consumption, and the sociological criterion of maximum national security singly may represent the rational standard of adjustment of population to resources in each level of the demographic equilibrium. But all the criteria have to be included in order that the concrete demographic policy of a country may be harmonious and consistent. A scientific

population policy will thus aim at (*a*) health, happiness and serenity of the people obtaining their means of living in a congenial *milieu*, (*b*) the exploitation and conservation of land resources and employment of man-power, in the largest sense of the phrase, (*c*) the maintenance of a right occupational balance between agriculture, manufactures and trade so as to prevent poverty and unemployment on the one hand, and deterioration of race physique and hygiene by urban concentration on the other, (*d*) the maintenance of population at a size which neither breeds fatalism in economic life, nor despair nor political or economic aggression, and (*e*) the maintenance of a high standard of living of the people compatible with its own natural resources, skill and arts of production without its being artificially bolstered up by the restriction of migration and importation of raw materials from politically impotent countries or from those where manual labour in the fields or settlement on the land of the particular community are impossible. Ecological considerations afford a salutary time perspective on current problems of returns and population in the Old as well as the New Worlds.

The scope of the three fundamental divisions of economics may be indicated from the theories and problems that are their primary consideration. Ecological economics gives us the laws of the regional evolution of economic systems and patterns, of optimum returns and population and of occupational balance and economic stratification. Price economics deals with phenomena on the criteria of their having a price, and gives us the norms of value, and its derivatives, the theories of rent, wages, interest and profits. The final division of economic science *viz.*, institutional economics, yields the theory of customs and social values, of economic rights and obligations, of social security and of economic planning and control.

The Separate Categories of Law, Norm and Ideal

Before we discuss the functional relations between the three divisions of economics it will be appropriate to consider the nature of the 'laws' which may be formulated in each division. A law of the same exact nature as that which is formulated in the physical sciences can be enunciated only in the field of ecological economics. Here the same constancy is discoverable in the relations, for instance, between the decline of agriculture and the movement of population as is discoverable in the dropping of mango and its fall to the earth. The laws of human ecology, even if hypothetical, have the same certainty as those of the physical sciences. Even if such laws be modified in their operation by state policy or individual intervention as, for instance, afforestation or economical use of soil and water for the crops, the laws of returns and population still hold good even as the law of gravitation persists in the ascent of the balloon. In the field of price and cost economics, the economic law that can be formulated is a description of what men more or less strive to achieve in the *rational* allocation of means to scarce resources. Thus the economic law here is an intellectual 'norm' of *consistent* action, and implicates the idea of human effort. It is far different from a law in physics, for instance, where we can never assume that the mango 'strives' to fall to the earth. Where volition is involved it presupposes man's freedom to act differently, and to alter the law. Thus there is no constancy discernible in the relations between the demand and supply of labour and the movement of wages. The economic 'law' in the field of price and cost economics is accordingly something different from the law in ecological economics. It is an 'abstraction', which can be justified only on the basis of a statistical generalisation of past experiences or of a *necessary* law in ecological economics which produces it because it *underlies* it. To give an adequate explanation of

concrete relations and activities in this field we would need to combine the norms with other elements of human conduct which are unpredictable and difficult to control. In institutional economics, which overlaps with sociology, the elements and relations are far more complex and uncertain, and man's activities and relations not only involve the whole of his personality but also carries with it the entire social and institutional background. Neither norms nor positive laws will be applicable here. Institutional economics enunciates *ideals* and *policies*, what men more or less *ought* to do and should do in concrete economic situations. 'Laws', 'norms' and 'ideals' are different kinds of categories. In economic analysis such categories often have become confused. In the concept of economy in three successive levels human activities and relations are governed by 'laws' or explanatory necessities, intellectual 'norms' and 'ideals' respectively. It is essential to keep these different categories in mind in economics in dealing with different kinds of phenomena; for each category has its fundamental limitations. The 'laws', 'norms' and 'ideals' of economic activities and relations are reached by a process extending over *time*. Thus in every case the relevant discussion of the phenomena centres round the conception of a kind of movement of activities and relations towards an *equilibrium*.

The three orders of the economic environment, which are organised and refashioned in man's economic activities and relations, and the three orders of equilibrium of such activities and relations, which form the distinct field of ecological economics, price economics, and institutional economics, yield distinct grades of social norms and standards. Ecological economics furnishes the laws of biologic survival arising out of a balancing between the production of scarcity goods and depletion of Nature's stores. The permanence of man's culture and external heritage and the optimum number at which he can enjoy the maximum expectation of life, freedom

and wealth are the outcome of establishment of his delicate and subtle balance with the scarce and fateful forces of the region. Price economics establishes the norm of technical efficiency arising out of a balancing between costs (labour and technology) and exchangeable objects and services. It is the equilibrium of the market in a regime of free competition and equal opportunity in the liberal society of early capitalism that secures efficiency of the productive processes and equi-marginal satisfactions for the individuals. A delicate adjustment of man's activities and relations in the economic world, the state and the various groups, institutions and patterns of social behaviour, that express and conserve his myriad interests and values, besides economic, regulates order and progress. Institutional economics establishes the norm of order and progress arising out of a balancing of economic satisfactions and power and the ultimate values. Economic values emerge in that order of man's relations to scarce resources of the environment where we concentrate our attention towards the balancing of satisfactions and costs, the former being governed by the principle of marginal utility and the latter by the principle of efficiency.

Grades of Relations between Means and Ends

Economic theory while it has conceived of 'means' being directed to certain 'ends' has left the meaning of these terms vague. In price and cost economics the conception of the scarcity of means is fundamental, all economic activities and relations involving problems of the use of scarce resources. Economic theory has not clarified also the relations between means and ends in their different levels. The present positive or behaviouristic attitude has contributed towards the reduction of economic activities and relations to a set of drives and satisfactions, which are abstracted from man's coherent system of ends, institutional norms and moral values, his personality. A greater realism will be introduced into the

	Nature of Means and Ends	Object of 'Consistent' Action	Norms	Relations between Means and Ends	Nature of Human Relations
Ecological Economics.	Scarce Means and Single Ends.	Choice of technique with minimum sacrifice.	Biological survival.	Entirely direct and intrinsic.	Mechanical.
Price and Cost Economics.	Scarce Means and Plural Ends.	Choice of the maximum number of alternative ends with minimum sacrifices at their 'margins'.	Economic efficiency.	Direct and intrinsic as well as indirect and symbolical.	Rational-contractual.
Institutional or Sociological Economics.	Scarce and Free means and Plural Ends.	Choice of ultimate ends and regulation thereby of the use of means; with maximum sacrifices, if necessary.	Order and progress.	Mainly indirect and symbolical.	Personal-ethical.

analysis of economy if we consider grades of relations between means and ends, different levels and norms of relationships and experience. The above table gives a rough sketch rather than a detailed analysis of economic activities and norms in terms of the relations of means and ends in their different levels.

Man's adjustments of means and ends give rise to relationships with other individuals, and in turn are governed by these relationships. Out of the different types of activity and relationship in the process of selection of the particular means and ends of the individuals norms have arisen representing standards of 'rational' or 'consistent action.' The norms are different according to the planes of actions and relationships. Price and cost economics is especially concerned with the choice of ends and their corresponding costs or efforts and with rational-contractual types of relationship. But these are subordinated to the institutional norms, the rules of conduct that arise in the give and take of individuals in the wider field of the community life. Out of the daily sharing of rewards and sacrifices, which gives the key to the process of socialisation, certain conventions of competition and cooperation, property and contract and a frame-work of freedoms and obligations emerge. These embody the ultimate ends and ideals of the society, and specifically define what the society holds all relations, including economic relations, ought to be, formulate normative rules governing the rational-contractual relations in the economic field, and lay down the limits on the use and acquisition of scarce means (wealth) and also on the use of other *individuals* as means.

Different Elements in the Notion of Wealth

It is the institutional norms which regulate wealth and power relationships of the community in the interest of order and progress. In economic theory the conception of wealth includes (1) scarcity, (2) exchangeability and (3) economic

power in the successive grades of society's exploitation of the environment. Classical economics presented "harmony" and the "simple system of natural liberty" as the norms of economic progress, of course mistakenly believing that the pursuit of enlightened self-interest would bring about the greatest wealth of the community.

In the 19th century it was evident, however, that the use of wealth and income as economic power and its mal-distribution threatened both social peace and economic efficiency. New norms developed for mitigating or removing the great inequality of wealth. The state in many countries seeks the ownership of the instruments of production, while a progressive scale of taxation especially of large incomes and inheritances and large-scale state expenditure on public services establishes a better distribution of wealth. Interest to-day, observes Keynes, rewards no genuine sacrifice any more than does the rent of land. It is possible that the state by fixing the rate of interest, by exercising its influence on saving and investment through its scheme of taxation and by other means may abolish the cumulative oppressive power of the capitalist to exploit the scarcity value of wealth. Recent economic theory is grappling in all countries with the problems of the growth and full employment of capital without breaks and discontinuities, and the use of the services of the financial and entrepreneur for the community on reasonable terms of reward.

Nor is the problem merely economic. Economic power holds the key to political power in the modern capitalistic society. The political alignment of parties and groups, which depends upon the existing distribution of economic power among the various historical-social strata, determines the range and aims of economic reform, on the one hand, and the stability of the economic and political order, on the other. Thus economic policy cannot be developed *a priori*; it has to take into consideration the nature of political authority,

the strength of different political parties, the responsiveness of industrial public opinion, the habits of money-making and saving, the entire social and institutional background of the people. It is institutional economics which supplies the norms that govern the mechanisms of price and cost, the acquisition and use of wealth as means of economic power and the balance of capital, labour and resources in the interests of economic stability and progress.

The Transposability of Economic Data and Ends

In the ecological level the equilibrium between economic toil and the limited returns of nature is the result of environmental selection. Man's collective adjustments so far as his allocation of limited resources between alternative uses is concerned are the result of a long process of trial and error and selection. His economic heritage, which includes permanent products as well as approved conventions which develop division of labour and capitalisation of energy, acts as a social sieve, selecting favourable new economic variations. But even in the evolution and selection of forms of property and freedom establishing a balance between resources and output of labour man does not play a completely passive rôle. As economic society is face to face with the phenomenon of diminishing returns, the disturbance of man's vegetative and hydrographic balance, and of the vital interchange and of circulation of forms of energy in the region, it develops a norm of rational exploitation of resources. Thus a normative element enters into economic action even in the ecological level. In the price-cost level the interpretation of economic activity as the outcome of several and "conflicting psychological pulls" is essentially mechanistic. Man's wants and satisfactions cannot be viewed as those of atomic individuals with a set of given drives operative upon them in a social vacuum. It is the society which organises and stabilises the demands of certain goods and services, and

establishes a scale of relative valuations. The socially recognised scale of valuation becomes the norm of economic action in the context of the market. It is a superficial view to stress the logical gap between fact and norm in economic theory. In economic activity in its different levels, society envisages ends which in their nature and significance are not completely governed by the given scarcity of means, the definitive conditions of the situation. In so far as institutional norms integrate with economic activity and relationship, and regulate the movement of these to an equilibrium, economics is a science which is both positive and normative. But to say that economics is a normative science does not mean that it is a branch of ethics. The difference between economics and ethics is simply this that economics should take into account the socially accepted scale of valuations and norms as given data, governing the consistent adjustment of scarce resources to a variety of ends; while ethics enters into the examination of the valuations and norms themselves. But the data, though given for economics, belong to quite a different plane from the determining conditions of the external environment and a given human nature. Such data belong to the sociological level, and their intermixture with the other sets of data in the ecological and economic levels makes it impossible to apply behaviouristic and positivistic methods without doing injustice to the variety of levels of human experience and their integration and interpenetration in individual conduct and the mechanism of price and cost. Behind the positivistic approach of Professor Robbins and others lurks the social atomism of the British liberals and utilitarians. Much in the same manner as modern psychology has dispelled the idea of atomic drives working in isolation, and shows the integration of various drives in actual conduct, sociology has dispelled the older utilitarian idea of ends originating from an aggregation of individual systems of ends, and shows that these belong to a blended whole, a coherent system of

ends rationalising the economic actions of individuals and serving as the basis of order and progress of society.

The Ethical Pre-Suppositions of Classical Economics

That Classical economics introduced into its analysis several general ethical assumptions and norms, which have now proved inadequate, may here be briefly indicated. Economists view all situations as corresponding to a mechanical picture in which the individual chooses between alternative means to obtain the highest possible utility out of his scarce resources. The law of diminishing utility prevents him from concentrating all his resources towards one alternative, and his choice is governed by the principle of equalisation of utilities at the margin. The economic equilibrium is attained through the maximisation of the total utility obtainable from the use of his resources on the several alternatives together. There is not merely a psychological error involved in the postulate that the subjective utility is maximised only through the individual having the greatest possible number of alternatives, which vitiates the procedure of analysis. But there is also an ethical assumption which follows, and which is equally open to objection. There is an implicit assumption that individuals do in fact strive (not merely tend), and *ought* to strive to equalise marginal utilities. This is a *norm* of action which makes the economic phenomenon far different from the fall of the mango from a tree. The notion of an 'ought' cannot be reconciled with a positive science like physics to which economics is sought to be approximated. Economists have gone much further than this in introducing value judgments. They have postulated mobility and freedom of competition as offering the greatest scope for individuals to equalise marginal utilities, and thereby to obtain the highest possible subjective satisfaction out of limited resources. They often change unsuspectedly from an explanation to value judgment when they argue that freedom

of competition is the best, and that the state should promote it. Utilities can and should be measured. Freedom of competition is the indispensable *condition* for such measurement. Thus it is posited as a *norm* of obtaining the maximum satisfaction, and a rule of policy for the state is developed out of the needs of deductive reasoning. The Classical notion of the system of natural liberty, which even now is seen to lurk in the analytical procedure in economics, is an ethical doctrine. It rests on the assumption that the individual's enlightened self-interest and effort of improvement of his condition under conditions of free competition stimulates the growth of capital and improvement of the arts of production and of his own skill and personal capacities. Thus economic freedom is calculated to contribute towards maximum efficiency and its growth in individuals and classes. No doubt from the point of view of the rising class of business men, the system of natural liberty has been a spur to productive enterprise, adventure and power. But that this system cannot be depended upon for the automatic adjustment of the supply and demand of labour nor for the efficient use and growth of its productive capacity became too apparent to the later Classicists and Marginists.

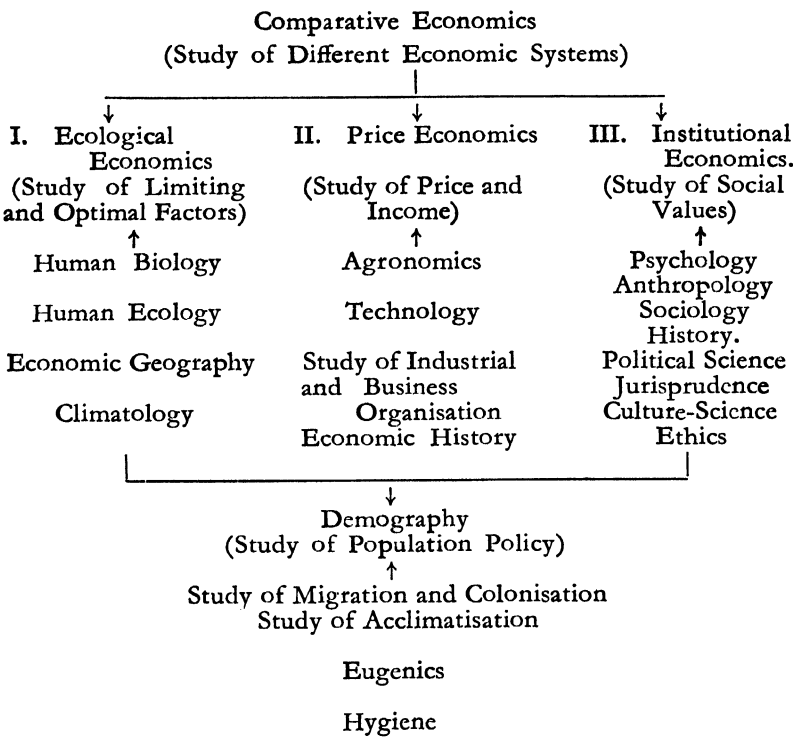
Yet when they applied the marginal concept to the analysis of the distributive process, a somewhat similar and as disputable set of ethical implications in the working of the competitive system emerged. In both Classical and neo-Classical economics there is a tacit acceptance of the equality of services or other products, which the three categories of labour, land and capital furnish. Underlying the services of such factors of production as labour and capital are a complex of personal capacities such as skill, education and enterprise and an institutional situation which furnish the ethically valid justification for remuneration. Even in neo-Classical economic theory there has been a hesitant recognition that labour occupies a much superior position as compared

with property in its ethically valid claim to the social dividend. The lack of mobility and insight of labour prevents it from exploiting its full saleable productive capacity in an automatic market adjustment. Nor does the market process ensure the investment of a fair proportion of capital in the society for the promotion of health, efficiency and education of the labouring class. The older economists conceived of the working-class population restricting their numbers, thereby adjusting themselves to the market conditions of demand, and establishing a relative or equal scarcity with other factors of production. But this has been justly condemned as "the commodity theory of labour", which can be assumed only in a very simple economic society. The causes that prevent the wage-earning class from fully exploiting their bargaining powers are found to lie as much in their ignorance as in their adherence to a non-pecuniary scale of valuations, as much in the peculiarities of the capitalistic-industrial system and property-holding, which have created vast differences in purchasing power and relative proportional inequality, as in the psychology of the businessmen, who regard their special capacities as constituting claims against society rather than obligations to society. All these have raised difficult ethical issues. As a matter of economic policy the state has turned to labour legislation, wage fixing, education, health improvement and social amelioration of the working class, departing materially from the older *laissez faire* policy. This has involved the introduction of new norms and institutions which are contrary to the ethical assumptions of the liberal economics of the past that has outgrown its usefulness.

Representing the ideology of the rising entrepreneur class, which claimed to share the privileges and opportunities of the older aristocracy for a century, the liberal economic theory has now imperceptibly changed its ethical and sociological pre-conceptions. The present economic and social

situation demands for the most numerous and needy group in society new norms and ethical assumptions. In the liberal theory of ethics in the past the individual was the lever of moral progress. Economics carried into ethics the significance of the rôle of individual choice and action. Individuals were conceived as fighting for the rights of other individuals, and wresting these from an unwilling community. In the modern theory of ethics society becomes a participator in the individual's moral attitudes. It is the ethical community which by its institutions and norms of social relationship and action that carries on moral struggle, and gives meaning to individual choice. As this view of social and moral progress dominates, the interpretation of economic behaviour as automatic and inevitable as in a mechanical and positivistic explanation will give place to an analysis in which the creative experiences in the social-ethical level as embodied in institutional legacy and social judgment will be more significant than individual desire and choice. Sociology might materially help towards a critical examination of the present basic premises and postulates of price economics, and a re-statement of these in the context of man's conduct as a whole.

We are ending the chapter with a diagram illustrating roughly the relation of the three primary subdivisions of economics to each other and to other branches of science.


Comparative Economics
(Study of Different Economic Systems)
I. Ecological Economics
(Study of Limiting and Optimal Factors)
Human Biology
Human Ecology
Economic Geography
Climatology
II. Price Economics
(Study of Price and Income)
Agronomics
Technology
Study of Industrial and Business Organisation
Economic History
III. Institutional Economics.
(Study of Social Values)
Psychology
Anthropology
Sociology
History.
Political Science
Jurisprudence
Culture-Science
Ethics
Demography
(Study of Population Policy)
Study of Migration and Colonisation
Study of Acclimatisation
Eugenics
Hygiene

CHAPTER III

THE INTER-DEPENDENCE OF ECONOMIC NORMS AND DATA

The Nexus between Economic and Other Kinds of Social Relationship

The concrete economic process is the result of the synthesis of the three different groups of activities and relationships, ecological, technological and institutional, conceived for the purpose of analysis in separate levels or categories of experience. In an organismic view of economic activity, the equilibrium of forces and relations is lifted from the plane of adjustment by environmental selection through that of prices and costs by the action of demand and supply to the final level of the synthesis of all values by the framework of culture. Each level of relationship and equilibrium gives a category. The laws of biological survival and the ideals of order and progress in the ecological and institutional levels respectively are for price and cost theory given data. The norm of technological efficiency of price and cost theory is for ecological and institutional economics a given datum. Neither supply and demand nor the phenomena of the market exist independently, but these obey different causal laws from the activities and relations in the ecological and institutional levels. And yet social action which is an integral whole cannot be viewed in terms of biological, economic and cultural categories separately. An analytical procedure which excludes from the economic field forces and relationships from both ecological and institutional levels as "irrational", "adventitious" or non-existent leads to a barren, static formalism. The Vienna school distinguishes between

endogenous and exogenous forces in the economist's universe. In most cases the train of causation is not wholly economic; and economic realism always considers the variety of social factors and circumstances that impinge upon the economic relations, instead of presenting a formal analysis and outline of probable developments. As a matter of fact there is a functional connection between economic and all other kinds of relationship and equilibrium. It was the socialistic school, which stressed the importance of the inter-relationship between technological, economic and political systems, and brought into the ambit of economics forces which were formally set aside and ignored as variables. In so far as economic activities are placed in a harmonious setting of ecological or technological and cultural institutions, economic science should assume certain standards from the non-economic fields as norms of rational action. In the price and cost field norms can also be formulated. All abstractions, such as an intellectual norm or an ideal, are reached by different kinds of analysis in different fields of concrete social life. Economic activities, therefore, can only be adequately understood by reducing them to terms of environmental selection and survival, in the first instance, of the mechanism of price and cost, in the second instance, and of the system of order and progress, in the third. The same body of principles which is applicable to the interpretation of concrete social phenomena must be applied to social life in its economic phase. From this synthetic view economics achieves a new realism by its alliance with the other social sciences dealing with different phases of social life, and by its integration into the master science, sociology. By itself it cannot give an adequate explanation of concrete economic activities and relationship; only by assimilating a broad sociological theory, which applies to all the social sciences can it avoid "the fallacy of misplaced concreteness", *i.e.*, of taking the formulation of a set of abstract principles applying to some of the

factors in concrete reality for a complete description of the whole of that reality.

Professor Robbins has recently rehabilitated in another guise the Classical abstraction, 'the economic man', who had been banished previously from economic studies with the advent of modern psychology. Instead of the abstract type of man, we have now an abstract type of his conduct. "Economics does not attempt to pick out certain kinds of behaviour, but focusses attention on a particular aspect of behaviour, the form influenced by scarcity." Professor Robbins of course makes it clear that the purpose of this and other assumptions is not to foster the belief that the world of reality corresponds to the constructions in which they figure, but rather to enable us to study in isolation tendencies which in the world of reality operate only in conjunction with many others, and then by contrast as much by comparison, to turn back to apply the knowledge thus gained to the explanations of more complicated situations. He accordingly claims that the procedure of pure economics has its counterpart in the procedure of all physical sciences.

Norms of "Consistent Action" in Other Social Relations Intermingle with Economic Data

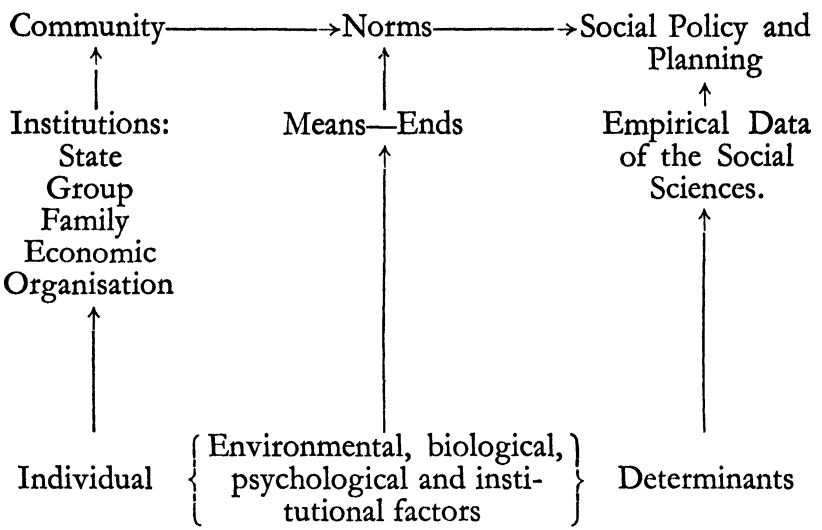
Now the relations in economic life are not abstract concepts as in physics or mathematics, but these are relations between human actions, in which a complexity of motives, conscious and unconscious, and unpredictability are implicated. Such relations which pure economics posits as universal man constantly can and does alter, and what is more important he knows that he can alter such relations. The abstraction of an aspect of human conduct, the assumption of scales of relative valuation and the deduction of their formal implication in different situations may help us in economic analysis, provided that there is clear recognition at all its stages that the conditions are never given in full in concrete reality inde-

pendently of other "irrational" or "disturbing" elements. It should also be clear throughout the analytical procedure that the idea is not imported into human relations from the field of physics of something conditioning these to the exclusion of human volition. And if completely "rational conduct" is assumed to strengthen the fundamental assumption of relative valuations, to dismiss from it altogether the influence of norms and ends from other aspects of social behaviour would be superficial. Economics has shown little appreciation of the importance of the problem of the relations between technological efficiency and biological survival or social progress. It has concerned itself chiefly with an analysis of the purely abstract conditions of efficiency, and since Adam Smith it has committed the mistake of always having, as Prof. Knight aptly observes, the value relation essentially upside down, in advocating liberty as instrumental to maximum satisfaction. On this point, Souter rightly picks up Robbins in "the remarkable tautology" (p. 161, *n* 79, quoting from Robbins, op.cit., p. 127): ".....given the desirability of individual liberty, absence of regimentation, power of continuous initiative, there is strong reason for supposing that conformity to the criteria of free economic equilibrium constitutes a fulfilment of these norms." Economic efficiency is an instrumental rather than an intrinsic end, and a science which deals with instrumental ends ought to be very careful in relating these instrumental ends to the system of the means-end chain in the social system. Not merely does price economics altogether disregard the integration of ends of individuals in society, but by adopting a behaviouristic attitude it sets up the individual pursuit of selfish ends as a norm of practical policy. Man's personality builds up an integrated system of norms and ends in order that society can be maintained, and the individual can exercise his "rational choice" in the economic field. The value of economic goods and services is chiefly "symbolic of social

relations rather than causal" (Knight) and determined by institutional guidance. The economic choice is integrally related in the means-end scheme to the human values, which cannot be quantitatively expressed or measured, nor related to measurable quantities of goods and services. Such goods and services have a *meaning* in so far as these express the other human values and ends and are subservient to the latter.

No choice in the economic field can be appropriate or "rational" which is inconsistent with human norms and values in political, familial and other fields of man's institutional life. The term "consistent" is more appropriate, and the assumption of "consistent" economic action may be helpful in analytical procedure. But the significance of "consistent" political action, "consistent" familial action etc., must not be lost sight of. In concrete social relations, there is an area of "consistent" action in the field of political science and so on, and economic forces from the standpoint of other social studies are completely "disturbing", "random" and "adventitious". Other social sciences have their own norms, which may be deduced from abstraction of the other aspects of man's social behaviour for the purpose of analysis. These are all concerned with various kinds of means to achieve different sets of ends. The analytical procedure which supplies the data by studying these in isolation gives a *norm*, an ideal, of "consistent" action in each social science. It is this norm which must be assumed as datum for every other social science rather than proved necessary.

This may be made clear from the accompanying table:



In the above scheme different types of means-ends relations supply the empirical data of the social sciences, while the various kinds of determinants represent the unconscious background of types of social action. Out of the efforts of adjustment of means to ends, norms and standards of *consistent* action emerge. Concrete human action is, however, different due to error, incapacity and ignorance; while the community with its various means of social control, such as the state and the family, fashions new norms which change the existing system of human relations, economic, political and so on and regulate conduct. In the theory of human conduct accepted by the social sciences there is a tendency to exaggerate the role of the environmental and organic factors and to under-rate the role of tradition and institutional norms. The institutional norms spring from the basal fact of the community life, and these enter into the data of the different social sciences, and embody themselves in concrete social planning or changes in the existing systems of social relations and activities. When these norms instead of being external censors are accepted as a part of the make-up of indi-

viduals, these transform themselves into conditioning factors, as for instance, when a strong national sentiment for home industries supplants a policy of economic protectionism.

The Transposability of Norms and Data

Value judgments as such fall outside the scheme of a positive science. For each particular social science the norms or value judgments of others are socially accepted *data* for the purpose of economic policy, political policy and so on. And when these become persistent formative factors as tradition or history, social action and relations are changed permanently and it will be necessary to have a totally different framework of *conditions* adopted as "constant". For complete and "consistent" social action *i.e.*, for the explanation of concrete individual actions and social situations we have to reckon with tradition and all institutional norms and the consequences of all actions. It is only technology where the end is single and simple. In the case of other social sciences not merely are the resources several but the ends multiple. Such ends divide themselves into a scale or hierarchy in the different levels of social adaptation. In technology social action is subordinate to iron bound physical laws, but such laws are inapplicable to the social sciences on account of freedom of man's choice of means and ends. Here the "laws" are not explanatory necessities, but intellectual norms, deduced from logic, not from the *data*. The freedom of human choice ushers in the law of valuation which no social science can neglect. In the reciprocal adjustment and definition of resources and alternative ends man establishes a scale of valuations, ideals, and virtues. In concrete action in the social environment he integrates the system of ends, and grades them according to a scale, however shifting it may be in social life. Such gradation of ends is represented by the hierarchy of biological survival, technological efficiency and social order and progress in the successive levels of social adaptation. The

norms singly may represent rational standards of adjustment of means to ends in each level of the social sciences; but all have to be included in the analysis of the sociological whole situation and of concrete actions and relations of individuals in the social environment. All the norms have to be satisfied in order that any concrete economic action may be consistent and congruent, for such action is a single process which is abstracted for the convenience of the analysis into different levels and categories. The law of value is that man in a social environment must attain the respective ends of biological survival, technological efficiency and social order and progress in the three successive levels of adaptation. Both the use of the biological analogy in addition to the mechanical one in a dynamic notion of equilibrium, and the notions of the integrated system of ends of individuals and of society as an integral whole, an ethical community in the literal sense, will pave the way to admit a larger scope of reality to economic analysis.

The laws of technique, marginal utility and valuation are reached through a social process which involves the time element. Hence the significance of the notion of equilibrium in any social situation. The tendency, however, is not towards an individual equilibrium but towards an institutional equilibrium. Many of the so-called causes of "economic friction", which are hindrances to the operation of free competition and mobility, can be, therefore, considered as adventitious or non-economic only from the standpoint of the utilitarian ideal. The framework of institutions, laws, freedoms, rights and obligations seek to harmonise individual interests with the interests of the community and regulate the dynamics of individualistic equilibrium to such a point of maximum economy in which institutional equilibrium is also established. In the social process itself the equilibrium is lifted to higher levels. In the institutional plane it is the social and cultural values which through the system of ownership, freedom and

reward regulate economic relations and activities. Thus these move towards an equilibrium where the norm of economic efficiency is subordinated to the norm of social order and progress, in whatever manner the community may measure and establish these.

Quantitative Expression of Norms in Economics: Survival, Efficiency and Progress

The three respective social categories, biological survival, technological efficiency and order and progress can be quantitatively expressed though quantitative accuracy diminishes as we rise from ecologic through economic to institutional relations which are shot through with ultimate uncertainties. Biological survival could be accurately measured by Pearl's vital index, Kuczynski's net reproduction rate, or by the average expectation of life of the community, which are the most reliable indices of the biological status of a people. The highest average longevity is the criterion of optimum population adopted by me elsewhere. It implies not merely economy of reproduction which is the physical basis of social progress, but also the highest economic productivity. Longevity is usually associated with high productivity, good morals, enlightenment and social harmony. Thus a society which has the highest average expectation of life may be regarded as the soundest, biologically and socially.[1] Population and resources are the two factors involved in the ecological equilibrium. From the point of view of collective ecological adjustment, the optimum population has to be reached in relation to the maximum husbandry of limited resources. Thus the maximum duration of the economic basis of civilisation is another norm which emerges in the ecological level. Similarly the pricing process is, within the limits of the system of private property and competition

[1] The Criterion of Optimum Population, *American Journal of Sociology*, March 1933.

in modern capitalism, the accepted measure of technical efficiency in the "economic" adjustment between ends and scarce means. The highest per capita income and full employment of the factors of production are the criteria of optimum population at the economic level of equilibrium. Order and progress cannot be precisely identified, nor adequately measured. Social progress has reference to a certain standard, which is selected according to the circumstances of the age and the notions of the philosophers. The norms of order and progress have been different in different ages and among different peoples. The Physiocrats, the Classical economists and the Socialists have given us different norms of order and progress. Harmony and natural liberty among the 18th century intellectuals, and *laissez faire* among the Classical economists were the norms of progress. With the rise of Socialism, and the increasing felt inadequacy of the norms of freedom of competition and enterprise and the misery of the working class, new norms of order and progress are defined by the various social sciences. Of these social solidarity and integration of interests of groups and classes, which are most lacking in capitalistic industrial civilisation, appear as the greatest common denominator in sociology. Political science and jurisprudence also are up against the inequalities which the disparity of wealth and opportunities in modern capitalism has produced, and which have been the greatest handicaps to order and security. Political science gives the norm of unanimity of political groups or parties, and jurisprudence that of maximum security of social interests or minimum state intervention. Similarly economists of the liberal school now define order and progress as the maximisation of aggregate welfare and happiness; while the socialists adopt for the norm of progress the equalisation of incomes and abolition of class distinctions.

The significance for the aggregate social welfare and

happiness of a policy of equalising money incomes has now been brought out by methods of analysis which are of the essence of economic technique. Recent quantitative studies of income, standard of living and social stratification have not only made our knowledge of disparity of income and living standards more accurate, but also revealed the social consequences of the inadequacy of the aggregate national income on the one hand and of occupational immobility and artificial social distance on the other.

Inter-personal Comparisons of Utility

The removal of the disparity of incomes and opportunities would, first of all, express itself in a general rise of the standard of living and deviation of productive enterprises from the industries of luxury to those of necessities or comforts, which would tend towards increasing the average longevity and also total satisfactions in the community through an equalisation of the marginal utility of money. If satisfactions could be quantitatively estimated a policy of equalising incomes through removing the differences in the marginal utility of money would be seen to maximise happiness and welfare. Though pleasure is neither always desired nor identical with welfare, it might still provide an index of welfare, argue some of the neo-Classicists. Mercury is not heat, but a column of mercury in a thermometer may measure temperature accurately. This is the analogy given by students of ethics who recently have rehabilitated utilitarianism. "It is difficult to think of ordinary cases where we should advocate as right and what ought to be done anything that would tend to diminish the total amount of pleasure experienced by mankind, or where we should refuse to approve a measure that would tend to increase this amount." Thus revised, the utilitarian test of the good has received some support. But we cannot accept the utilitarian attitudes that individual and social satisfactions can be measured and compared, that

all individuals in the eyes of the society are of equal value, and that the state should base its power upon the greatest number merely.

Man seeks neither the maximum quantity of economic goods nor maximum doses of satisfactions, which may be quantitatively measured. Nor does society seek maximum total satisfaction, however that may be expressed or measured. Satisfaction is essentially a ratio, the ratio between the wants gratified and the total want, and the denominator also changes whenever an act of consumption alters the numerator. Moreover, the utility of a given income to any person or class depends upon the income going to other persons or classes. Bousquet holds that average welfare is constant as average income increases. Combined with Pareto's demonstration of regularity in income distribution, this postulate offers some hope for progress.[1] The neo-Classicists, however, cannot believe that it is helpful to speak as if inter-personal comparisons of utility rest upon scientific foundation *i.e.*, upon observation or judgment of fact in the scientific sense. Lionel Robbins thinks that the assumption of equality comes from outside, and that it rests upon ethical principle rather than upon scientific demonstration. At the same time he agrees that it is fitting that such an assumption should be made, and their implications explored with the aid of economist's technique. Robbins' insistence on analysing the economic effects say, of a small tax, an increase in wages or change in rates of interest on individuals in isolation leads us away from reality. For when we deal with the effects of redistribution of income we do not have to compare the utility of the marginal increments to two isolated individuals. In economic society subjective satisfactions are converted into standards of living of groups of people which are quantitatively expressed and measured. By taking random samples

[1] Welfare and Its Measurement, *Weltwirtschaftt Arch.*, October, 1930.

of individuals from different economic strata one finds that each group has as stereotyped in its scale of living the same kind of needs and the same capacity to enjoy satisfactions. As an individual rises in the economic scale his innate capacity for satisfactions may improve, but such improvement is not sufficient to prevent the marginal utility of money from falling. Thus we may expect to find in each group of equal numbers of individuals the same number of individuals of any particular capacity to enjoy expenditure, and, consequently, any redistribution of national income from individuals in the richer group to those in the poorer groups would bring about a net gain of utility to the society and hence an increase of aggregate economic welfare. Another line of reasoning may be followed. Differences in the capacity for satisfaction may be regarded as acquired traits. A redistribution of income in favour of the poorer groups would afford them the wherewithal to acquire greater capacity for enjoyment of expenditure. If this is acquired, through generations perhaps, social welfare would be increased.[1] Robbins quotes from Jevons, "I see no means whereby such comparison can be accomplished. Every mind is inscrutable to every other mind and no common denominator of feeling is possible." While the difficulty of estimating the effect of the transfer of a unit of money from one individual to another cannot obscure the central fact with which we are more concerned in economics *viz.*, that it is possible to measure the effects of such transfer on the group scale of needs and satisfactions, observation and introspection permit us to assume that the transfer of income from the richer to the poorer groups brings a greater gain of utility to the community as a whole. We thus need not base the policy of redistribution of income on the heteronomous end of social justice derived from ethics and sociology. The transfer

[1] Melville and Jastram: Notes on Economic Welfare, *Economic Journal*, September 1939 and March 1940.

of wealth could be justified on the basis of the more or less autonomous ends of economic science.

This, however, excludes the consideration of disutilities caused by change of mental and social conditions of work, loss of initiative, insecurity of employment or supposed interference with individual freedom and enterprise, which may lower the individual's previous level of enjoyment, and which has to be compensated for by relatively greater increase in the share of the national income. The socialists, indeed, stress that more important for individuals are 'values in use' rather than subjective satisfactions, while it is an anachronism to postulate effective demand as the true measure of satisfactions of others because of social immobility and the present disparity of purchasing power and economic opportunities.

The Goal of Shared and Integrated Satisfactions, not the Maximum Aggregate of Satisfactions

In the meanwhile in the field of orthodox economic theory contradictions of a serious kind have emerged because the analytical part of economics lays down that we can only find out what maximum relative satisfaction requires through the free play of effective demand, whereas now "welfare economics" requires that this free play should be constantly interfered with in order to bring about a greater equalisation of resources for the sake of another kind of maximum satisfaction.[1] Modern psychology has given us a theory of man's work and satisfactions far different from that which underlies the classical comparisons of subjective satisfactions. In the first place, man does not seek a full comparison of all alternative choices for maximising his subjective utility. On the contrary, he would often find it disagreeable to weigh between many alternatives. He prefers stability, not change

[1] Sutton: Economic Theory and Economic Policy, *The Economic Journal*, March, 1937; Ayres: What Shall We Do With Economic Science, *International Journal of Ethics*, January, 1938.

and obtains an effective guidance from his class or society in his scale of preferences. Secondly, he neither seeks maximum subjective satisfaction nor maximum satisfaction for the society. How can he discern what other individuals are demanding at the same time, even for purposes of demanding the same goods in order to encourage economies in production? Many goods, again, require for their satisfaction joint action of consumers, which may not be forthcoming; many will not be sought if individuals can get some of the other goods. Nor can it be presumed that the ends which can be satisfied by free individual action are quantitatively more important than those, which cannot, and which may have been sacrificed to the others; while there is no method to compare the gain and loss either for individuals or for the society. Thirdly, to posit that a free market in consumption goods can combine the individual scales, irrespective of differences in money income or purchasing power, into an agreed common scale which expresses the general ideas of "justice", and to define the economic goal as the production of an ideal output in which the individuals could share in proportion to their very unequal money incomes goes against the modern democratic ideals. Finally, to assume that there is no value standard which is held in common by all individuals, except the measure of price obtained in the market by which to weigh the various constituents of the national dividend sought to be maximised, is to disregard the influence of tradition, law and institutions altogether on the formulation of man's indivisible social objectives, including the economic aims.

Both individual and social ends are indivisible, and depend upon the relative scale of valuations by groups and institutions in which he lives and moves. In these relative valuations the individual has learned to anticipate in the time scale and to balance permanent ends or norms of the group or class with his subjective satisfactions. Society integrates the system of ends and transforms subjective satisfactions

into values and norms. When economics reduces such values and norms into wealth, these are translatable not into hypothetical personal estimates of utility, but into both physical quantities and specific ways of living, including leisure, freedom, and initiative about which there may be common agreement and plan of action. Society, indeed, standardises man's want-satisfactions and standards of living and ways of life which can accordingly be defined objectively in large measure. Further, it subordinates the subjective utilities to those ends and values which the individual may share with others. The outcome of the social process accordingly is that man learns to prefer ends which are common to all his fellows in society. The recognition of the significance of the common integrated system of all desirable ends for individuals would remove the contradictions between "welfare economics" and price and cost economics as regards the mode of reaching a maximum satisfaction. Utilitarianism, however modified, cannot yield quantitative laws of maximisation of social satisfaction by taking the sum of individual satisfaction in the sense of aggregate or as an algebraic sum. The key to equalisation of income and resources will be found not in the desire or achievement of the maximum sum of satisfactions but in the preference for shared resources and satisfactions themselves. It is man's integrated and common system of satisfactions which accordingly lies behind the present achievement of equalisation of wealth and the individual's preference of stability and security to freedom of choice of goods, and maximisation of subjective utilities.

The Levelling up of Economic and Political Power and Social Distance

As the equalisation of wealth and resources progresses in the society, this will register itself in the consensus in voting in political matters. In the field of politics important correlations between sex and voting and between economic

status and opinion or behaviour of certain types have already proved fruitful for the interpretation of political events and phenomena.[1] We all know that theoretically satisfactions cannot be compared as between individuals, and that both these as well as votes are subject to fluctuation and artificial control. But in the Great Society, characterised by representative government and universal education, it is likely that in social behaviour in the aggregate the levelling up of income not only raises the general standard of living and average longevity but also promotes social mobility and unanimity in the referendum. Sociology, which is using the objective index of social distance for understanding social relations would accordingly add that the social distance as between individuals and economic classes diminishes as the result of a policy of reducing existing inequalities of income. And, similarly, politics which uses the objective index of the ballot yields the norm of political agreement between groups and classes in the state as the standard of progress. In the ideology of Communism, the class-less society is the final goal of the dynamics of history. In this stage all antagonisms, social and political, are set at rest. "It is only in an order of things in which there will no longer be classes or class antagonism that social evolution will cease to be political revolution." No doubt in the present industrial phase in Europe, characterised by acute social cleavage based on the distribution of economic power, the norms of order and progress are naturally represented by the levelling up of wealth and political power and social distinction of classes. The assumption is that the equalisation of wealth achieves the welding of classes, political integration and removal of social distance, all now presented as norms of order and progress. Such conclusions are reasonably certain though these cannot be proved. The social sciences have to cope with an indeter-

[1] Merriam: *New Aspects of Politics*, Chapter IV.

minate human nature and with uncertain social behaviour, but norms of order and progress such as the above could be quantitatively described, measured and correlated, and will help these sciences to yield accurate predictions, and make possible adequate control and planning of measures, policies, and institutions. To a much greater extent than before it would be possible to use for measurement and comparison the ascending grades of indices and to establish similarities in the form of correlations between sets of data and norms. In social life and behaviour, the factors which enter into a complex situation cannot easily be isolated. Not merely are there many variable factors but the relations of the variables cannot always be readily disentangled. Thus the interpretation of results is difficult, and in some cases perhaps impossible. Some of these correlations will carry greater weight than others, but taken together, these will indeed augur well for the interpretation of social phenomena and direction of social policies. The social sciences are concerned, however, not only with correlations and averages but also with the qualitative aspects of social situations. Yet, as Max Weber observes, "all qualitative differences can be expressed in the last analysis in some form of quantitative difference of the way in which elements appear in various combinations." Thus the partial inapplicability of the statistical method cannot prevent the formulation of generally valid propositions in the social sciences in the form that definite situations favour to a greater or lesser degree like reactions of individuals who confront them.

Indices of Optima

The indices of optima as we rise from the ecologic through the economic to the institutional level, which may be used for the measurement of advance in different fields and relations and for comparison as between communities and nations are as follows:

LEVELS AND CRITERIA OF OPTIMUM

	Ecological	*Economic*	*Institutional*
Individual	1. Maximum average expectation of life. 2. Maximum plasticity of interests and capacities.	1. Maximum average per capita efficiency and standard of living. 2. Maximum freedom of consumer's choice and producer's effort.	Appreciation of ultimate values.
Social	1. Maximum density and mobility of population. 2. Maximum duration of natural and human resources, skill and equipment. 3. Maximum specialisation and coordination of social structures and functions.	1. Maximum of aggregate welfare and happiness. 2. Maximum employment, security and leisure. 3. Maximum *sharing* of economic goods, services and satisfactions.	1. Maximum national security. 2. Maximum unison of public opinion (Political philosophy). 3. Minimum social distance between groups and classes. (Socialistic economics). 4. Maximum social solidarity and integration of interests of groups and classes. (Sociology). 5. Maximum security of social interests and minimum intervention by law. (Jurisprudence). 6. Maximum recognition of individual rights, indicating respect for human worth. (Ethics).

No criterion is self-sufficient. Society for a balanced progress must attain different kinds of optima. Otherwise it exhibits pathological, social and economic structures and functions. As a matter of fact the history of civilisation illustrates the unequal emphasis of these optima which has brought about malformations and maladaptations. On the other hand, it is the aim of modern economic planning to achieve a coordinated and harmonious advance. Its technique is to lay down policies and programmes according to several quantitatively expressed optima, and compare and predict results with reference to these indices of progress in different fields. More and more the methods of a planned and measured advance are superseding the analytical deductive methods of the older economics. As economics becomes more experimental, institutional and evaluative it will have to envisage different goals and optima as alternatives, and compare and contrast alternative policies and consequences from different economic systems such as liberal-capitalistic, collective-socialistic or rural-communal. For a decade before the present war the entire European world was divided into two *blocs* following divergent population, fiscal and economic policies. The supposed dogmas of Individualism *versus* Totalitarianism or Communism instead of being accepted or rejected *in toto* should be superseded by analytical observation by which actual phenomena will be reduced to terms of definite problems with different ends or optima envisaged with their probable consequences in the practical social situation.

The Final and Inclusive Norms of Institutional Economics

The three respective norms or standards *viz.*, biological survival, technological efficiency and aggregate social welfare, solidarity and progress are implicated in one another. In the cultural level, the principles of adaptation, economy and

welfare are identical. Ecological equilibrium is attained in and through economic equilibrium, and when the maximum social welfare, solidarity and justice are attained economic equilibrium is reached. Thus all the three norms have ethical implications. Aggregate social welfare, solidarity and justice are, however, final and all-inclusive, implying a condition of equilibrium between man and the environment, and between man and the institutions, realised through a reconciliation of the demands of living, economic power and social values. Man's ethical ideals lie within the limits of biological survival, technical efficiency and social welfare and solidarity, and not outside of them. But the values of survival and technical efficiency, of labour, wealth and economic power that derive from the former are primarily instrumental rather than intrinsic, and hence are subordinated to the higher norms. Biological survival, technical efficiency and power are significant only in so far as these may represent social solidarity and justice.

Institutional economics thus clearly distinguishes between legitimate and enlightened consumption and "conspicuous waste", between accumulation of capital and "acquisitive production", between technical efficiency of the productive processes and the economy of distribution and consumption, between mere technical achievement or wealth production and vital and social welfare and harmony. Ecological and price economics accordingly furnishes the tools with which institutional economics works. Institutional economics stresses that whether we think of the individual's survival or technical efficiency in production these are essentially social processes and functions, and that the discrepancy between wealth production and costs in human effort and suffering, or between the economic power of the directive classes and the subservience or lack of opportunity of the masses is incompatible with the real nature of wealth and economic power. Ecological and price economics are scien-

ces of means and ends. Institutional economics, with its norms of social welfare, solidarity and justice establishes the relative value of means and ends and their reciprocal functional relations.

Institutional Economics and Sociology

It is definitely the task of sociology to help institutional economics to achieve such coordination. To evaluate economic systems according to certain universally recognised norms, to abolish the present conflict between economic power and social welfare through a new conception of economic relationship, rights and values, and to present principles and schemes of economic planning which may achieve the most comprehensive aims of social living,—these are the chief aims of institutional economics working hand in hand with sociology. Its fundamental principle is that wealth, happiness, freedom or adequate fulfilment of instincts of an individual are significant in the measure and directions which do not interfere with the wealth, happiness, freedom and fulfilment of instincts of other individuals in a regime of social cooperation. The individual left to himself can attain neither survival, nor technical efficiency nor wealth production, nor fulfilment of his vital urges. An adequate fulfilment of the social and higher personal values can rest only on the social *milieu*. Further, man can realise the higher values if he adds to these instrumental economic values which are a means of these, and which, again, depend upon cooperative social functions. Limitation of economic means, of time and opportunities is imposed by society which forces upon the individual eternal choices between values. Such choices have to be made with reference to the social situation. The individual has to set up a scheme and ordering of values for avoiding the conflicts in his inner life. The scheme often follows the scale of valuation of his group, but man now and then guides social choice and judgment by his own evalua-

tions. That community shows complete adjustment where man's personal virtues and social norms are in harmonious relations. As a matter of fact many of the abstract moral virtues of the individual are but projections into the ideal of concrete social relationships as we find them in the actual social situations.

From the social point of view, then, ethical ideals not only cannot be at variance with the above natural norms of economic survival and economic efficiency but also subordinate these values to the higher values of social welfare, solidarity and justice, and to the over-individual values of knowledge, beauty and religion. It is the task of sociology to introduce the principle of unity and right order in the realm of values, and to defend the ecologic values of racial survival and permanence of resources against the encroachment of the economic values of efficiency, standard of comfort, and power, and the higher values of social welfare, solidarity and justice, and the aesthetic, intellectual and religious values against the invasion of the lower biologic and economic ends. The squandering of man's forest and mineral wealth and the crime against trees, rivers and grasses had led to the ruin of many old civilisations. In modern industrial society an uneconomical utilisation of resources, such as coal and other minerals, oil, natural gas and timber, is encouraged by competition; while neither buyers nor sellers have any incentive to discriminate against enterprises which disregard the claims of future generations. This has called for a revision of the old *laissez-faire* policy and for state interference. The norm of man's permanence is established by the ethical policy of conservation of natural resources, by conservative or permanent agriculture, by afforestation, by grass-land and river management and by regulation of mining rights and concessions in the interests of generations yet unborn. Neither individualistic nor monopolistic price economy can direct a far-sighted and wide-minded policy

of establishing a stable balance of population and limited and irreplaceable resources. We have to depend upon a norm for the distribution of abundance to the greatest number for the *longest* time. The abolition of slavery and forced labour, and of feudal levies and guild regulations and the entire field of agrarian legislation, establishing an intimate connection between the use and ownership of land have their raison d'etre in not mere economic efficiency. Economic legislation often sacrifices economic value or restores the norm of vital and purposive efficiency where conflict exists between costs and satisfactions, between labour and rewards. Acute conflict now exists in modern industrial society between the use of economic power by individuals and classes and the security of social interests. New norms are emerging in law and politics in order that social harmony and welfare may be stabilised, and there is no reason why an inadequate representation of the economic process abstracted from what is an integral social reality should stand in the way of recognition of certain social norms which economics must accept as socially operative data.

Social Norms are Given Data for Price Economics

Such social norms must of course vary in different economic situations and circumstances, but in so far as these are socially recognised and regulate economic relations and behaviour, economics must accept them as conditioning forces in definite situations and systems. Classical economics believed not only in the unique character of individual valuation, but also in the summation of individual values as the norm of economic activity. The individual has, it is true, unique nuances of combinations of values. But such combinations are a phase of the collective integration of values of the group or community to which the individual belongs. It is the group or the community which organises and stabilises values, and also makes it easier for individuals to appropriate

these. Only a man of genius or a social reformer can form a focus of new values; values on the whole are accepted as such by the mass of individuals whom economics deals with. Values are economic, aesthetic, religious or spiritual. The non-economic values are for the economist given data. The structure of economic life and organisation has its own immanent necessities. The economic laws are ecologic or mechanical-technic trends, which shape or modify an enlarging sphere of values. These manifest themselves also in the social relations and institutions of the community. The latter embody all the urges and desires of man in their varied combinations as are possible of fulfilment in man's restricted environment. Social relations and institutions are the outcome of both fulfilment of desires and values and the limitation which nature imposes on such fulfilment. The limitation of the environment has its own abstract laws, which represent the field of pure economics. Institutional economics deals not only with the abstract laws governing the relations between restricted or scarce goods and satisfactions or services, but also with the entire social and institutional structure and standards which blend and interpenetrate with and over-reach economic values.[1]

The empirical structure of economics is relative and historical, as also the relations between scarce goods and economic values, and between economic values and social and cultural or non-economic values. The framework of economic analysis needs accordingly to be changed as society accepts and enforces new non-economic values, and imposes these upon economic activities and relations. Particular social preferences which have not been yet transformed into social norms through legislation, the framework of institutions or public opinion may be weighed objectively by the analytical technique of economics, which will help towards

[1] I owe this analysis to a discussion with Professor Alfred Weber.

the choice between alternative social policies. But in the choice by society economic considerations represent only one set of factors, which are weighed by institutional economics against such desirable norms of social progress as the scale of valuations, defence, equalisation of incomes, abolition of class distinctions, social justice, the preservation of the countryside, and so on. No doubt economic analysis helps us towards a rational choice between alternative ends of order and progress.[1] But the choice *may* be made largely with reference to non-economic norms, and when once the choice has been made, the norms have to be considered by economics as given data, and it will be illegitimate to regard these now as uneconomical or irrational.

The distinction between institutional economics and price economics will be helpful in maintaining the distinction between norms as alternative ends and as given ends or data. Among the complex sets of social norms which are interconnected, inter-active, or incongruent with one another, institutional economics makes a choice or brings about their co-ordination for economic planning. Price economics will assume the socially accepted non-economic norms as its given data. The norms are no longer distinguishable as such but integrate with economic activities and relations as links in the chain of causal explanation. Thus the trends of individual and collective behaviour are habitually deflected as regards production, distribution and exchange. It is only institutional economics which can plan economic policies by weighing both economic as well as non-economic norms; so that price economics may not be disturbed by uncertainty about ends or the means of attaining these. For example, institutional economics recognises the role of devotion to an occupation, profession or calling as a social norm which regulates efficiency in production and enterprise, and finds

[1] See Robbins: *The Nature and Significance of Economic Science*, pp. 152-156.

the relations between artisans and apprentices, between landlords and tenants, between employers and labourers often governed by other factors than the calculation of personal advantage. It marks out as its special field of analysis all those economic transactions and relationships which are regulated not by contractual obligations, but by positive, ethical valuations of men. It often super-imposes by law, custom or public opinion these valuations on economic relationships which would otherwise approximate to the rational-contractual type. To institutional economics the controlling and discipling influence of non-economic, ethical standards on economic norms supplies the key to economic policy. Institutional economics regulates the customs and tariff schedules to secure the ends of unity and defence of the state and imperial solidarity. It lays down minimum wages in certain "key" or basic industries and hours of labour in all occupations, and regulates prices of grain to safeguard the standard of living of the working class. It regulates bequest, levies death duties and taxes on a progressive scale to equalise incomes. It controls rent and rates of interest, scales down debts and revises contractual obligations between landlords and tenants, between farmers and money-lenders for the stability of agriculture. It arbitrates in strikes and lock-outs for obtaining peace and security of employment in the big industries. In the system of industrial organisation it chooses between competition and monopoly, between private enterprise and state management, and its choice would govern the entire price structure, and distribution of factors of production and their awards.

The norms of welfare and harmony, or whatever specific ends institutional economics seeks for the time being, govern the mechanism of prices and costs and marginal utility which distributes the factors of production between the production of different goods and services. In all the specified cases price and cost economics accepts that non-economic ends

in relation to economics in practice are simply so much *data*. Similarly ecological economics regulates the distribution of capital and labour in mining and forest enterprises by stringent laws of conservation or the state creates monopolies or itself nationalises mines and takes up forest management. The principle of husbanding soil-fertility, forest growth and mineral resources in order to hand these down to posterity unimpaired is not economic at all. The foresight that the demands for conservation and socialisation imply from the community is the outlook of ecology, the comprehensive science of sustained biological balance, which is concerned with the continuity of habitation and sustenance of population in a given region. Similarly a community as it restricts migration and the growth of population by stressing the need of maintaining the society's standard of well-being in a given system of production accepts an ecological aim. Thus non-economic aims which are fundamental for the security of economic life, govern through wages, interest rates and price margins the distribution of factors between production for the present and production for the future. Often the norms are integrally blended, derived, for instance, from a combination of political and ecological necessities. A country like Germany or Italy may suffer from the effects of population pressure, if it eschews foreign-grown food in exchange of manufactured products, and thus its optimum population is smaller than if it were not to be economically self-sufficient. On the other hand, a programme of re-armament and labour conscription in a scheme of defensive or aggressive "total" economy mitigate unemployment and the reduction of the standard of living, but at the cost of accumulated capital and the mineral resources of the country. In the present era of economic nationalism, the entire European world is divided into two blocs, one eschewing foreign foodstuffs and the other dependent upon freer imports and exports. The countries representing the two blocs are fol-

lowing markedly divergent population and economic policies. Economic nationalism, developing into an economic autarchy, aims at modification of a stable ecologic land-man or resources-population ratio by importing into the economic policy the need for man-power in preparation for war and in armament production. The work-a-day economic world is veined with the blood of collective social purpose as expressed by the state; deliberate conscious control has invaded every field of competition and private enterprise. For price economics all norms, whether ecologic, social or political, which regulate ends as well the relations between means and ends, are given *data*.

Data and Norms Governing Price Movements

In the treatment of production, distribution and exchange economics often disregards the changes in the content of property rights, the convention of contract and competition, the use of productive power and the regulation of the mechanism of prices and costs by extra-economic norms. Within the ambit of pure economics these norms are given data, influencing the scarcity of different economic goods and services. The data of price economics may change due to a disturbance in the man-land ratio such as deficient or inequally distributed rainfall, bringing about bad harvests with their repercussions on grain prices, wages, purchasing power and external trade of the people. Such changes of data may also be due to a gradual increase of aridity or desiccation brought about by a long-run upsetting of the ecologic equilibrium, which makes agriculture more precarious and subject to accelerated diminishing returns. Changes of data of price and cost, again, may be due to modification of fashion, the use of labour-saving devices and the development of communications which may all affect prices of grain. Finally, changes in the data of price economics may originate from such political and institutional factors, as freetrade or pro-

tection, state monopoly and control or private enterprise, the formation of cartels and syndicates or the regulation of rents, interest rates, wages and prices by the state. In real life many of these causes are found to co-exist, and for the general body of consumers one set of factors which determines prices is as important as any other set. It is the task of economic theory to analyse causative factors at their various levels which govern price movements and subjective utilities. In spite of the inter-dependence of these factors, some are more flexible and amenable to social direction, others are stubborn while these also vary in their speed or age. Desiccation, destruction of forests and depletion of sub-soil water-reservoirs must be in operation over long periods before these affect agriculture and irrigation, and ultimately prices of grain. Afforestation measures take a long time to produce their effects on agriculture; while state subsidy to agriculture, and control of grain prices are economic "events" of which the effects are immediate and wide-spread, much more so than the development of irrigation or scientific farming by state demonstration and propaganda. Economic theory must differentiate between the slow-acting or constant and irreversible and quick-acting or modifiable factors, between the long-period and short-period "events" in order to reach closer to reality. It must analyse how far these factors strengthen one another or are incongruent, leading to unforeseen changes in prices and costs. Finally, institutional economics will seek a rational economic policy, according to the scale of norms it adopts, which will eliminate inconsistencies or disharmonies between the factors working in ecological, economic and institutional levels.

Alternative Orders, Plans and Hypotheses

As a normative science it will have to adopt methods somewhat different from those of price and cost economics. After analysing the basic economic and social situation, the

policy it lays down may have two fundamental aims. If the policy concerns alternative means, institutional economics can reach scientific precision. Thus, for instance, if it advocates a judicious combination of agricultural and industrial progress it may formulate certain appropriate measures of scientific exactitude, based as these will be on the definite norms of economic science. On the other hand, if institutional economics has to lay down hypothetical goals, no precision in judgment is possible. In such a case it should be its aim to represent all possible systems of economic policy in terms of humanity's actual scale of valuations taken from sociology. The danger of institutional economics is that the economic policy may be envisaged within a given economic system, however unjust it may be, or the economic ends may be borrowed from political leaders and may represent rationalisations of particular political ideologies. Institutional economics can reach a fair degree of certainty in normative judgments only when it explains all possible economic ends and all fundamental measures of policy in terms of analysis of the conceptions of value from ethics and of experience from different societies and possible economic systems. Within a given economic system there is often found an inconsistency of measures followed in different sectors of economic life. It is also the task of institutional economics to remove contradictions and disharmonies, and bring about a maximum efficiency of economy without reference to any alteration in the fundamental economic and social goals. The demarcation of economics into the three major divisions, ecological economics, price and cost economics and institutional economics, will contribute not only towards lessening the degree of abstraction in economic analysis but also towards planning a systematic economic policy, free from the contradictions and conflicts of individual steps and measures, on the one hand, and of the inconsistencies of different parts of the economic structure on the other.

Law as the Synthesis of Social Norms

Property, freedom and the exchange system are the institutional factors which condition all economic quantities and events, and the analysis of the mechanism of prices and costs must be modified as these change. "Property", observes the distinguished jurist Cardozo, "has been taught that some of its most cherished immunities are not absolute, but relative. We shall have to learn, as the years go by, to distinguish more and more between what is essential in the concept of ownership and so invariable under the law, and what is accidental or unessential and so variable and severable at the call of social needs." Similarly the contents of freedom of the individual and of contract have changed according to social requirements. "Economics", writes Wurzel, "are nothing but the inert, dependent subject matter which the law rules and governs." Commons in his remarkable works *viz.*, *Legal Foundations of Capitalism*, and *Institutional Economics* set forth the important role that the juridical process plays in 'saving capitalism by making it good'. Nor merely have the Courts taken over the constructive task of working out common rules of fair competition and enforcement of contracts but they have recognised patents and copy-rights, and have developed a doctrine of "reasonable value" that includes the principles of scarcity, efficiency and futurity in a scheme of collective control adapted to the rapidly changing needs of the day. One important type of bargain still, however, lacks a satisfactory set of working rules. Labour is not a commodity or a promise; the labour is free to quit at will and the employer to lay him off at any time. The Courts could not maintain the personal liberty of the worker if they assimilated the wage contract with other contracts. The legally anomalous position in which that contract stands has been made more anomalous still by the intervention of trade unions, which have thrust themselves as third parties between employer and employee.

At first the law held trade unions anathema. They were combinations in restraint of trade, pernicious, it was thought in so far as they were effective, and, in the long run, as futile as they were pernicious, since economic "laws", then supposed to be inexorable, would nullify the gains of victory, and restore the pre-existing level.[1] The result, however, has belied the prophecy. The Courts gave up denouncing as lawless and unsocial a form of grouping that appeared and reappeared in response to a social pressure, akin in steadiness and intensity to the pressure that makes law. Whether the unions are to be classified as jural persons is another question of quite subsidiary importance. What has mattered most is that they are lawful. The state can hold them in check, as it holds in check the individual and even the agencies of government. It will not repudiate or destroy them. Further, the decree of a Court cannot abolish economic struggle between the classes but it can halt a strike, lock-out or industrial dislocation as it can halt a riot or a brutal and debasing prize-fight. Another jural right is yet to accrue *viz.*, security of employment for the industrial workers.

"Apparently a 'new equity' is needed—an equity that will protect the job as the older equity protected the business."[2] Its beginnings can be discerned as the U. S. A. Courts in their deliberate fashion were taking cognizance of the practices that were developing in dealings between employers and organized labour.

The norm of social progress, which law seeks to establish in the midst of conflicting values and shifts of public opinion cannot be expressed better than in the words of Roscoe Pound, one of the leading exponents of sociological jurisprudence: "The aim of law", we are told by Pound, "at all times and in all the compromises and adjustments and reconciliations involved in the legal order" should be "to

[1] Hobson: *Free Thought in the Social Sciences*, pp. 88-89.
[2] *Legal Foundations of Capitalism*, page 307.

give effect to as much of the whole body of social interests as possible.....The compromises and adjustments that will achieve the largest security of social interests with the least sacrifice, must be sought through a process of trial and error."[1]

The trend of modern law is, generally speaking, tending to subordinate the values of property, labour and freedom to personal and social values, and economic efficiency to social progress and to further and conserve the spiritual values. The law may effect an adjustment even between economic efficiency and aesthetic interest. The landowner will not be compelled to forego every profitable use of his land, but in some jurisdictions it is at least an open question whether a restriction may not be placed upon the construction of unsightly signs.[2] Aesthetic values are more precarious so far as the law is concerned. But even here, observes Urban, there are signs at least that ugliness is coming to be recognized as a social evil, and that the subordination of temporary economic demands to the more permanent aesthetic needs of men is beginning to express itself even in our legislation; and so far as education is concerned, induction to a degree at least, into the aesthetic values of the race, is considered part of the individual's privilege and right.[3]

The State as the Personified Unity of Social Norms

In the field of political science the conflict between economic power and social harmony and justice is now resolved by a modern doctrine of natural rights with a changed content which tests, revises and reinterprets the rights of liberty

[1] Pound: article on "Jurisprudence", in *The History and Prospects of the Social Sciences*, by Harry Elmer Barnes and others, page 472.

[2] Cardozo: *The Paradoxes of Legal Science*, page 58.

[3] Urban: *Fundamentals of Ethics*, pp. 179-180. The correlation between the development of law and economic, political and aesthetic elements in culture is discussed by Robson and Timasheff. Vide the latter's *Sociology of Law*, Chapter XIV and Sorokin's *Social and Cultural Dynamics*, Chapter XV, Vol. II.

and the pursuit of property and happiness in the changing social situations. The older metaphysical doctrine has been rehabilitated in a new garb by Stammler in Germany, and has now found a number of adherents in different countries. It is the social harmony or welfare which determines the content of natural rights in terms of particular men and times. The modern doctrine of natural rights is realistic and historic. It knows nothing of humanity as such and its abstract rights, but finds only a varying body of traditions as to what are the essential conditions of social welfare. At every stage in the development of a people are found certain standards of living that fix the terms upon which men are willing to endure a given order. As long as society meets these terms they are willing to go peaceably about their business, but if these terms are not met and their fundamental habits of living and acting are interfered with, they rebel and demand their rights.[1] According to MacIver one of the indications by which such rights may be recognised as worthy of protection is the spontaneity and persistence with which groups are established to conserve these. The state is only one of many social groupings and differs from the latter by being "an ordering of compulsion", to use Kelsen's words. Many political theorists now stress the view that the state is the personified unity of social norms ordering obedience. The old democratic and mechanical state theory which was at the basis of the liberal and democratic doctrines is now replaced by an organismic and historic concept. Fascism, for instance, not only supersedes the dogma of popular sovereignty by state sovereignty but also proclaims that "the great mass of citizens is not a suitable advocate of social interests for the reason that the capacity to ignore individual private interests in favour of the higher demands of society and of history is a very rare gift and the privilege of the chosen few."[2] Simi-

[1] Wilde: *The Ethical Basis of the State*, page 83.
[2] Rococo: *The Political Doctrine of Fascism.*

larly Corrado Gini observes: "The Liberal theory assumes that society consists of an aggregate of individuals who must look after their own interests, and it regards the state as an emanation of the individual wills intended to eliminate the conflicts between the interests of individuals. The Nationalist (or Fascist) theory, on the contrary, views society as a true and distinct organism of a rank superior to that of individuals who compose it, an organism endowed with a life of its own and with interests of its own. The interests result from the co-ordination of the desires for the time being of the current generation together with the interests of all the future generations which are to constitute the future life of the nations."

It is in this manner that the apparatus of compulsion, the state or the law subordinates freedom, property, exchange and pursuit of wealth and happiness to the higher and more permanent norms of social welfare, solidarity and justice. Moral and spiritual values are the ultimate ends of individuals, but these also embody themselves in the ordinary concourse of social life and in social relations, customs and institutions, including the economic, where the limitations imposed by the restrictive environment and the framework of freedom on individual and collective behaviour also assume the character of the moral and cultural imperative. The sociology of culture discerns the fundamental relations of economic, moral and cultural values, the inter-dependence of biological survival, economic efficiency and social progress. The subordination of the norms of biological survival and technological efficiency to social progress which comprehends these and entire is not a maxim of practical wisdom but is a law of value. Sociology must now import the law of value into the fundamental divisions of economics; economics should no longer claim a jealous autonomy for itself and moral idealism, economic realism and biologic determinism should be reconciled both in theory and practice.

CHAPTER IV

THE ETHICAL AND INSTITUTIONAL ASSUMPTIONS OF CLASSICAL ECONOMICS

The Stress of Sympathy as Contrasted with Logical Action in Adam Smith

It was the abstract, neglective procedure of the Ricardian and later Classicism which in the analysis of economic action stressed man's rationality, isolation and the pursuit of ends, dissociated from the general scheme of values in society. The founder of modern Political Economy, Adam Smith, in his general attitude and doctrine did not show the more limited conception of price economics with which we are familiar among the later English economists. In the first place, Adam Smith, who also wrote the Theory of Moral Sentiments, developed the principle of the identity of individual and social interests in a manner which showed a clear perception of the significance of man's sociality. In his celebrated theory of division of labour Adam Smith showed how general wealth is derived not from rational calculation, "wisdom" or prudence but from the operation of "a certain propensity of human nature which has in view no such extensive utility; the propensity to truck, carter and exchange one thing for another." This propensity is "the necessary consequence of the faculty of reason and speech" or, as Adam Smith said elsewhere, of that principle to persuade which so much prevails in "human nature."[1] An individual who effects an exchange with another *persuades* the latter by appealing to his self-interest.[2] Here we find an anticipation of the

[1] *Lectures on Justice, Police, Revenue and Arms.*
[2] *Wealth of Nations*, Bk. I, Ch. IV.

working of gregarious impusle in bringing about the harmony of particular interests. Like many modern philosophers Adam Smith in finding out the ground of morality focusses attention less towards the effects of action and more to the impulse from which it proceeds, and finds in sympathy which determines man's approval or disapproval the origin of morality. It is sympathy, which explains not merely the development of division of labour and exchange which differentiates barbarian from civilised society but also the origin of government and of the idea of legal punishment. Alexander, in contrasting the positions of Hume and Adam Smith as regards the basis of the moral sense points out that while in Hume moral sense arises from sympathy with the general effects of actions and character, "their tendency to happiness of mankind or of particular persons", in Adam Smith the sympathy is attributed to the origin of the actions. With Adam Smith the good action is one to which other persons can attune their impulses. "The impartial spectator represents", in the words of Alexander, "an ideally imagined person, the 'pitch' to which the wants and impulses of all can be tuned; the word is Adam Smith's own. Not that utility is of no account. On the contrary actions which harmonise persons are in the main identical with those prescribed by utility. But utility is not the first or principal source of our approbation and disapprobation."[1] If instead of sympathy or "the propensity to persuade which so much prevails in human nature" we postulate gregariousness as the original cause of division of labour and exchange, which constantly differentiates the tasks of all individuals considered as producers and constantly equalises the interests of all individuals considered as consumers, we would find the great master as one of the founders of social psychology. Smith's reference to "the invisible hand" which leads men,

[1] Alexander: *Beauty and Other Forms of Value*, p. 249.

while pursuing their own gains, to promote "that of the society" has been perhaps too much cited as a proof that Smith believed in the divine harmony between all acts of commercial self-interest and "the public good." Fetter rightly points out that the context shows that his immediate purpose was to discredit the professions of benevolent interest on the part of those who ask for tariffs and bounties favourable to their own business. He wished to show, using a bit of sarcasm, that the result will be at least as good, and probably better, if men are permitted to carry on foreign trade as they will instead of being forbidden by legislation in the interests of another group seeking a monopoly of domestic industry.[1]

Adam Smith's conception of price also is much broader than that of his later English followers. Thus he develops the distinction between "the real and nominal price of commodities and labour", and shows that the labourer may at different times lay down "his ease, his liberty and his happiness" in return for very different quantities of goods. Again, that Adam Smith did not develop a purely pecuniary conception of economics is amply evidenced by his emphasis that money is not the true index of national wealth, and that the multiplication of the precious metals is not the great object of national industry and commerce. Consumption, he declared, is the sole end and purpose of all production and it is the object of Political Economy to teach statesmen, to "provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves." A deep sympathy for the working classes permeates *The Wealth of Nations*. Their is clear recognition that high wages and hopes of improvement stimulate the efficiency of labour, and yet that those who bear the burden of society have the fewest advantages. Finally, Adam Smith while advocating *laissez faire* recognised its limitations

[1] Frank A. Fetter: Price Economics versus Welfare Economics, *The American Economic Review*, September 1920.

viz., that a nation should be protected against foreign competition and may adopt retaliatory measures, that public enterprises may be run without any idea of profits, and that the state should undertake the functions of justice, defence and enterprise in which no profit accrues. Adam Smith's norms of social welfare and harmony included besides national wealth, political stability, justice and state education.

The Limited Conception of Price Economics

Yet Adam Smith's general influence had been to support the abstractive procedure in economics based on the doctrine of universal self-interest. When he declared that the conduct of the majority of every class or order is always influenced by the principles of common prudence, even though there may be a few who are disinterested, idle and prodigal, and also that every individual is the best judge of his own interest, such fundamental assumptions became later on the postulates of a neglective, rationalistic analysis. The very practicality of Adam Smith's treatment of division of labour and exchange and the superficial comparison between commodities and commodities as underlying the estimate of value focussed attention to value in exchange rather than to efforts and ends. Adam Smith contributed to the confusion between "value in use" as the desirability of an object for a person's own use with utility as of real importance to welfare, thus dropping out from value and utility almost all of the fundamental welfare considerations.[1] In several directions his assumptions, methods of analysis, concepts and terms, indeed, contributed to encourage in the writings of his successors the narrower limited conception which ultimately fashioned the school of price economists. Thus he became "the father", in the words of Edwin Cannan, "not of economics generally that would be absurd, but of what in modern

[1] Fetter: *Ibid.*

times has been called, with opprobrious intention, 'bourgeoise economics', that is the economics of those economists who look with favour on working and trading and investing of personal gain."

The Stress of a Phase of Economic History in Ricardo and Malthus

It was, however, in the hands of Ricardo, who had little training in philosophy, and who was by his profession habituated to a pecuniary outlook, that economics lost its flexibility and realism that were discernible in Smith's *Wealth of Nations*. Ricardo's rationalism and optimism became the warp and woof of the new theoretical texture of economics. The abstractive procedure now extended from the field of division of labour, value and exchange to distribution. In the hands of Ricardo, Political Economy was based on the celebrated evolutionary law of rent. Ricardo discovered an inherent disharmony and divergence of interests as between the class of landlords, the class of capitalists and the class of labourers. The divergence of economic interests of the three major classes in industrial society was a historical circumstance peculiar to England at the beginning of the nineteenth century. There was grave agricultural distress due to bad harvests between 1794 and 1800, and the price of wheat rose sharply. The series of corn laws since 1804, which occupied a good deal of the attention of the Parliament, represented a series of conflicts between the interests of landlords and farmers and the general public and the capitalists under the peculiar conditions of land system in Great Britain. Parliamentary enquiries showed up, according to Cannan, the correlation of high prices of corn and extension of cultivation to inferior land and consequent rise of rent; and when in 1814 and 1815 the re-establishment of peace looked like putting an end to the accidental isolation of the English people, the landed proprietors, in defiance of the general

interest, demanded a new Corn Law, which by protecting English corn would prevent the inferior land from going out of cultivation and the rent on land from falling.[1] England was then fast being industrialised, and the importation of food-stuffs from the Continent in exchange for manufactured goods, which the European peace permitted, helped the general body of consumers to overcome the fact of scarcity. But the antithesis between scarcity and population and its corollary, the notion of the basic conflict of economic interests of the landlord and the city man, loomed large in contemporary discussions, which the development of international division of labour could not challenge. The manufacturers, wrote Sismondi, took advantage of peace to produce goods feverishly but the markets were restricted, and the labourers who were inadequately paid were "dying of hunger in the face of the pile of useless wealth," and at the same time were multiplying quickly due to the Poor Law and public charity. Such historical conditions not merely supported the Malthusian law of the disparity between population pressure and means of subsistence and proved it as true as the multiplication table but also the Ricardian doctrine of the natural divergence of interests of economic classes as universally valid and applicable to all conditions and states of society.

As soon as economics began to shift its interest from individuals freely exchanging the products of their labour to the various economic classes, the neglective, abstractive procedure was further stimulated. The science began to treat the classes in the same abstract manner as land, labour and capital. "Machinery and labour are in constant competition." Land and machinery compete for doses of capital. The constant tendency of capital to take the form of fixed capital brings about a rivalry not merely between machinery and labour but also between land and capital. It is in this

[1] Cannan: *A History of the Theories of Production and Distribution* pp. 146-147.

manner that class-conflict came to be transformed into a universal necessary force, and occupied the same position in the social sciences as friction in mechanics. It was a remarkable change from the treatment of sympathy as the first or principal source of morality in Adam Smith to the doctrines of rational egoism, class conflict and the identification of social welfare with the prosperity of the commercial and capitalist classes.

The Emphasis of Social and Institutional Factors in Malthus

Ricardo, a stock-broker, had no concern at all with the right and wrong of ethics or the motives and ends of psychology. But Malthus was an upholder of the doctrine of utility, which he derived from Paley, and not from Bentham. He states it thus in his *Principles of Population* "The happiness of the whole is to be the result of the happiness of individuals, and to begin first with them. No cooperation is required. Every step tells. He who performs his duty faithfully will reap the full fruits of it, whatever may be the number of others who fail. This duty is intelligible to the humblest capacity. It is merely that he is not to bring beings into the world for whom he cannot find the means of support." Malthus based his prudential restraint of population on the institution of private property and fear of losing position, and urged that not only communism should be discouraged but that poor relief defeated its own end. In this there is a clear recognition of institutional factors as regulating population growth. Two decades later (in 1824) William Thomson contended against Malthus that the economic independence of women and a higher standard of living for the masses would restrict multiplication more effectively. Malthus, however, believed in the efficacy of popular education as enlightening personal interest so that not only the blind impulses of instinct could be artificially checked but

"the disorders arising from narrow human institutions could be counteracted." An enlightened people would even overcome "the artificial encouragements given by law to the marriage of the poor." Not merely in his commendation of state education, but also in his views on the Corn Laws Malthus showed a due regard for the norms of social welfare and harmony. After examining the effects of the abolition of the wheat duties on the interests of the various classes he concluded that the measure would be tending to the happiness of the greatest number. "Between 1796 and 1807", observes Halevy, "the influence of Malthus had been felt by the Liberal party. It was a democratic influence. As concerns the education of the poor in particular, the radical theory of popular instruction is Malthusian in its origin."[1] When Malthus was writing, it was possible to conclude that the industrial production of the country was increasing and agriculture was declining or remaining stationary, and that because of the increase of population, the wealth of the nation could increase without a corresponding increase in the happiness of the labouring class.[2] In an ardent vein Malthus stood for social justice as he declared: "I really cannot conceive anything much more detestable than the idea of knowingly condemning the labourers of this country to the rags and wretched cabins of Ireland, for the purpose of selling a few more broadcloths and calicoes. The wealth and power of nations are, after all, only desirable as they contribute to happiness."

The English Classical Assimilation of Economics with the Philosophy of History

A very important feature of the English Classicism was the discovery of certain sociological laws of progress which clearly indicated the broader historical perspective in eco-

[1] *Growth of Philosophic Radicalism*, p. 244.
[2] *Principles of Population*, p. 580.

nomics and the attempt to assimilate economics with the philosophy of history. This was evident especially in the writings of Malthus and James and Stuart Mill, though even in Ricardo the laws of progress were introduced in economics more definitely than in Adam Smith's *Wealth of Nations*. The real source of the idea of progress was Condorcet in France through whom it first came to Malthus till it reached James Mill and Ricardo. Condorcet's fundamental notion was that of the continuous progress of humanity to an ultimate perfection. He demanded that in the study of man the knowledge of the laws of his individual nature should be completed by the knowledge of the laws of his social nature; above all, he proposed that a science be constituted which should study not the co-existence of individuals in one and the same society, but the succession of social phenomena in time. If there exists a science of foretelling the progress of the human species and of directing and hastening it, the history of what it has achieved should be the primary basis of this science. Again, "since opinions formed from the experience of the past on objects of the same class are the only rule of the conduct of wisest men, why should the philosophers be forbidden to rest his conjectures on this same basis, provided he does not attribute to them a certainty superior to that which can spring from the number, the consistency and the exactness of the observations."[1] The above analysis has now become the foundation of the modern psychological theories of social progress. James Mill regretted that philosophers have not yet succeeded in agreeing on the rules suitable for determining the principal degrees of civilisation. But Stuart Mill later on gave the clearest exposition of the idea of a philosophy of history in his *Autobiography*. Here he tells us that one of the first ideas he discovered on his journey of intellectual exploration was the idea, which was

[1] Quoted by Halevy, p. 275.

then in vogue among the thinkers of Germany and France, that the progress of the human spirit follows a certain necessary order, that all questions of political institutions are relative, not absolute, and that different institutions not only do in fact but *ought* to correspond to different degrees of human progress—in short, that any general theory or philosophy of politics presupposes a preliminary theory of human progress, in other words, a philosophy of history.

The Sociological Laws of Progress in Ricardo and Malthus

The two fundamental sociological laws of progress which were now incorporated into economics were the law of population and the law of land rent. Henceforth economics presented itself not as a general process of circulation of goods which goes on uniformly for ever but followed laws of progress or laws of evolution. Both these laws are comprehended under the theory of social progress. Malthus reached his law of population with the same use of inductive and statistical data as a sociologist would now employ for reaching his social laws. Similarly his theory of rent rested upon a variety of observations relating to the expansion of cultivation during the Napoleonic War and the movement of prices of corn. Malthus also took into consideration certain facts in social dynamics, such as the power of the land to provide a greater quantity of necessaries than are required for the subsistence of the people employed in cultivation, the tendency of the supply of food to create its own demand and to increase the population and the progress in agricultural industry. All these factors which influence variations in rent were neglected in Ricardo's abstractive, deductive analysis. It is now a truism that Malthus treated the laws of human numbers too mechanically. The cause of population increase is not only biological but also psychological. The will to live and thrive by individuals and societies

has played no small part in increasing population and spurring them to economic effort and expansion. Malthus undervalued the role of social institutions as he over-estimated the role of instincts as man sets himself face to face with the limitations of the environment. True to the modern spirit, Malthus gives a right valuation to the instincts and irrational elements in social progress, definitely disagreeing with Condorcet and Hartley that it is man's intelligence which works out the law of progress. Malthus, the sociologist, was supported by James Mill, the psychologist, in presenting the contrast of the relations between the laws of human nature and progress. According to James Mill man as an intelligent being is capable of indefinite progress for he can accumulate intellectual capital indefinitely; but man as a producer is only capable of saving and accumulation to a slight extent. The poor are unable and the rich are indisposed to save. James Mill, starting from the "known" laws of human nature, based on these a new proof of the Malthusian principle of population. Yet in Malthus it is not the unconditioned human nature, "the blind impulses of instinct", which may lead man to progress, but "egoism must be enlightened and the impulses artificially restrained" through the spread of education. This is as right as it can be. As regards the other portion of Malthus' double law, *viz.*, that which concerns the relation between food supply and population, that over-population may lead to a fresh spell of economic advance through technical and organisational improvement could not be realised by Malthus. His sociological law of population will, however, remain unchallenged on the whole. Its limitations arise because of the historical circumstances to which it accorded and which it interpreted closely and of the intellectual traditions of individualism and atomism of which it was a product, which compelled a mechanical and negative formulation of the laws.

The evolutionary law of rent, which was the other socio-

logical law developed by Malthus and Ricardo, represents the principles of formation of the different economic classes and divergence of their interests. Here, again, especially in Ricardo, the theory of conflict of classes and mechanisms governing the distribution of wealth is fashioned into laws of the natural progress of society which are also sound in their core and have stood the criticism of the next generation of economists. The defects arise only in the rigid and mechanical formulation of the natural laws and in the lack of understanding of the organic nature of inter-connections between different factors of production and their functions in the economic field. Such defects are to be expected of any product of the individualistic age in which these writers flourished. The new sociological method is distinct from the old Utilitarian method in that it accepts man's gregariousness or sociality as an irreducible datum of experience, and thus starts from the group and not from the individual as the elemental fact as well as basis of study in social science. It, therefore, reveals laws of significant inter-relations of the activities of the individual and the group as much in instinctive behaviour, such as population increase, as in the socially conditioned functions of production and distribution of wealth which defy simple causal and mechanical explanation.

Mill's *Principles of Political Economy* clarified and systematised the Ricardian economics, comprehending of course also the Malthusian doctrine. "In its scientific substance it is little or nothing more than an elegant exposition of the Ricardian economics", wrote Ingram. The criticism is too severe; for Mill's important functions were to introduce the ethical and humanistic elements, and to socialise the older atomistic economics by assimilating into it a broader theory of social progress and quicker appreciation of the injustice and wrongs to the working class inflicted in modern industrial society. Mill considered in detail various humanitarian schemes both in economics and politics, and contributed in

some measure towards linking the study of economic activities with social conditions and welfare. In fact Mill's inconsistency and syncretism, which invited the scorn of Karl Marx, are themselves symptomatic of the coming change in the intellectual and social outlook. This inconsistency is evident in his definition of the scope of Political Economy. Sometimes he describes Political Economy as a study "carved out of the general body of the science of society," while the title of his *Principles* to which he appends the phrase "with some of their application to Social Philosophy" suggests, in spite of his indecision as to whether economics is a subdivision of philosophy or not, at least a larger and more flexible conception than in the Ricardian economics.

Marshall's Realism Contributes Flexibility to the Laws of Value and Distribution

In the hands of Alfred Marshall economic science became more flexible and tentative. Marshall stressed that economics deals with the whole of man's nature though it lays stress on certain aspects of it, and that it is concerned with individuals chiefly as members of the social organism. No longer does the economic man stalk through the pages of his *Principles of Economics*. But Marshall's 'man in flesh and blood' is too rational and acquisitive a creature to be real. Social groups are recognised as governing economic activities and satisfactions, but on the whole Marshall's "economic solar system of symmetry and balance" revolves independently of them. In his celebrated chapter on the Doctrine of Maximum Satisfaction the larger sociological problems of the nature of happiness, progress and of the worth of life are recognised in all their implications. But Marshall, like Mill, in spite of his efforts to stress real human welfare, suffered from a dualism, and could hardly permit his larger economic ideas to pierce through the hard encrustation of the older economics. In aspiring to make economics an exact science he made it centre

around money which, in his words, is "the one convenient means of measuring human motive on a large scale." He is well aware that the same price measures different satisfactions to different persons, and even persons having the same income might derive different satisfactions and benefits. Yet at the same time he was of deliberate opinion that if one takes averages sufficiently broad to cause the personal peculiarities of individuals to counterbalance one another, the money which people of equal income will give to obtain a benefit or avoid an injury is a good measure of the benefit or injury. Thus Marshall in order to make his analysis of economic forces scientific sharpened the tools of price economics, and gave the laws of value and distribution which he inherited from his predecessors a tentativeness, flexibility and even elusiveness, which have contributed materially to preserve the core of Ricardian economics against the attacks that were being launched from all sides. An extraordinary plasticity and realism are shown by Marshall as he has discussed the causes of differences of earnings of labour. Marshall observes that the disagreeableness of work often lowers wages when it is done by persons whose industrial ability is of a very low order. From this arises what he calls the evil paradox that neither employers nor the labourers themselves can check the cumulative action of social forces which prevent the equalisation of the attractions of different trades. Marshall, in his elaborate chapters on the earnings of labour, gives important clues to the understanding of social and economic stratification as these govern the demand and supply of labour. But in the end after an elaborate discussion he suggests that there is a supply price of labour in its different grades, and that machines and men earn their incomes according to the same laws. There is a constant tendency towards a position of normal equilibrium in which the supply of each of these agents shall stand in such a relation to the demand for its services as to give to those who have provided the supply a *sufficient*

reward for their *efforts and sacrifices*. If the economic conditions of the country remained stationary sufficiently long this tendency would realize itself in such an adjustment of supply to demand that both machines and human beings would earn generally an amount that corresponded fairly with their cost of *rearing and training* (*conventional necessaries* as well as those things which are strictly necessary being reckoned for).[1] Could we treat the vigour of a people as a whole and the numbers and vigour of any trade in particular as things of the same order as the supply price of capital? Are the efforts and sacrifices of labourers of the same category as the demand for labour? Recognising as Marshall did that conventional necessaries and customary comforts are the embodiment of material and moral progress, is it true to say that the greater they are the less economical is man as an agent of production? Could standards of consumption be strictly confined to those necessary to efficiency in order that any increase in consumption may pay its own way, and add as much as it draws from the national dividend? Marshall in spite of a warm and generous heart failed to grip realistically with the problems of class stratification and disparity of opportunity due to ownership and privilege and their influence on the conditions of labour and wages. The present social situation demands a much wider examination of the conditions of the efficient application of labour in production, which must include an analysis of the incentives and bafflements of labour in different grades and strata that Marshall did not adequately consider. The insistent major problems of wages that face the modern economist are: What is the character of the demand schedule for labour under different conditions? What are the effects of wage changes on the three-fold function of wages (*a*) as incentive to the worker, (*b*) as cost of production to the employer, and (*c*) as purchasing power furnishing demand for

[1] *Principles of Economics*, pp. 576-577.

goods? Are the requirements of these three functions in harmony, or if not, can they be brought into harmony?[1] Through Marshall's pages, however illuminated here and there by his social preference for the well-being of the many, and however guarded and provisional may be his "tendencies" and "approximations", there runs the shadow of the Ricardian evolutionary law of rent. Marshall's study of "dynamic economic changes" is confined merely to the problem of valuation and distribution. Thus the criticisms which Veblen levelled against the Classical economists partially apply to him. Like his predecessors, Marshall has little to say about the causes of change in an unfolding sequence of economic institutions. The Classical theory was cast not in causal terms but in terms of teleology. This teleological character of economic science Veblen attributes to its hedonistic preconceptions. Underlying its generalisations of human effort, there is "the belief in a meliorative trend", which exercises "a constraining guidance over the course of causes and effects." "The ultimate laws and principles which the Classical economists formulated were laws of the *normal* or the natural according to a pre-conception regarding the ends to which in the nature of things all things tend. In effect this pre-conception imputes to things a tendency to work out what the instructed common sense of the time accepts as the adequate or worthy end of human effort. It is a projection of the accepted ideal of conduct."[2] In Marshall the belief in the inevitability of progress predicated on the institutions of ownership, freedom of enterprise and the quest for gain is of course much less evident than in Mill, but there is no gainsaying the fact that Marshall's analysis of the prevailing economic institutions has suffered from his intellectual legacy

[1] The questions are suggested by J. M. Clark: Accomplishments and Prospects of American Economics, *The American Economic Review*, March, 1936.

[2] Veblen: *The Place of Science in Modern Civilisation*, p. 65.

that nothing is wrong under the sun in England, and that the trend of progress overshadows all aberrations, mistakes and misdeeds. Marshall had too great a faith in chivalry in business, which includes public spirit and excludes the use of fraud or foul means, malign destruction of rivals and oppression of employees. By his tradition and temperament he was no ardent believer in social change, and he stressed that the present age was not quite as wasteful and harsh as was sometimes represented. He observed, "Much more than a half, possibly even three quarters, of the total income of the nation is devoted to uses which make for happiness and the elevation of life, nearly as efficiently as is possible with our present limited understanding of the arts of life."[1] If the economic world was much better than it had been, it will be better than it is—this is the nineteenth century gospel of progress which the first world war challenged. Economics no longer anchors itself in Marshall's faith but seeks progress through economic and social planning.

Contrasts in the Evolutionary Outlook of Marshall and Veblen

The fault probably lay more in his method. He deviated from Mill in the disregard of conscious social ends and choices, dictated by ethical norms and values. But while Mill lived in the age of individualism and Utilitarian philosophy Marshall lived after Darwin and Wallace, his own country-men. Even though he showed some acquaintance with Herbert Spencer, and saw the numerous applications of biology to different fields of the social sciences, he used the social organism idea superficially without making it basic to his reasoning and persisted in the contractual or atomistic view of social relations much in the same manner as did J. B. Clark who seems to have been the first person to use

[1] *Memorials of Alfred Marshall*, p. 329.

the Spencerian idea in economic theory. Both in Marshall as well as in Clark the organismic theory of society was accepted with simplicity and naivity in order to round off and show an apparent completion of economic principles as fundamental laws of social progress. There was no attempt to study the relations between the individual and groups or institutions in their different levels, nor to understand the theory of value and effort as emanating from purposes in the various levels of adjustment in the social *milieu*. Thorston Veblen's great contribution was to make a systematic beginning of the assimilation of the notion of social evolution into economics. Instead of arguing like Marshall that the competitive system is the agency through which the survival value whether of business firms or institutions is tested, Veblen conceived of the entire field of institutions, including modern technology and the competitive system, ownership and class gradation, as flexible implements of adaptation which change with changing conditions of progress. Yet even Veblen adhered on the whole to an almost metaphysical belief in a blind irresistible evolutionary process which is heedless of the individual. Through Veblen and Hobson, the latter of whom interprets welfare in relation to the needs of the social organism or "collective personality", the sociological idea of evolution is now permeating economic theories and systems. No movement, however, has been more fruitful in introducing the evolutionary idea into economics than the historical materialism in the Continent, inspired as it was by the Marxian interpretation of the development of economic institutions as a phase in the evolution of humanity.

Contrasts in the Mechanical and Evolutionary Notion of Equilibrium

Either a naive belief that the final word on the nature of the organic life of society was said by Spencer or Schaffle or an approach to the course of economic evolution from a

class or propagandist spirit now stands in the way of an enlargement and deepening of the social evolutionary outlook in economics. But as it develops the economic process will be more and more treated in terms of organic functions and processes rather than of isolated and contending individuals. This will involve the change of the notion of equilibrium which will become less analogous to that in physics or mechanics and more to that in biology or ecology. Even Allyn Young's suggestion that the mechanistic and organic analogy are supplementary rather than exclusive will not meet the demands of new types of economic theory. These will be based on the fundamental conviction that individuals, groups and governments are alike bound with one another in a net-work of subtle organic inter-relations, woven by instincts, customs and traditions. Economic relations are only one among these tentative and shifting relations, and are inextricably bound up with these. Out of such relations which are all group relations, social ends or norms emerge that are derived as much from "an original human nature" and ecologic and social conditioning as from man's rational choice. Economic values whether of individuals, groups or institutions represent ends or norms in the field of scarce means, and are instrumental ends standing in a quantitative relation to the system of intrinsic, indivisible, social ends. The pricing process, under the present regime of competition and private ownership, gives some symmetry and balance to the attainment of economic ends by scarce means. But the symmetry and balance depend largely upon the custom of competition which has now become a sociological datum to be examined, and not a postulate of reasoning. Keynes' remarkable treatise, '*End of Laissez-Faire*' exhibits the stages by which through the control of the state, protective and collectivistic legislation, the development of monopolies and organised unionism, the complex of institutions, customs and legal-economic ideas, which are known as the competitive

system (and which Marshall has given the worthier label of 'freedom of industry') has been invaded and undermined. With many economists the belief in the social efficacy of competition has worn thin, and thus if social control be no longer the enforcement of competition, as in the era of trusts and monopolies or in the new regime of state control and monopoly, economic theory must now furnish new norms of regulation and coordination of economic activity. Such norms must come from the integrated system of indivisible, social values of the community as contrasted with the divisible, individual values which the law of markets guides for appropriation in the price system. Nor is the mechanistic analogy of equilibrium in a scheme of supply and demand applicable, because the antecedent social forces or data, which economics has to reckon with, are not uniform as in mechanics but show integration, emergence or wholeness and hence different *levels* of effort and evaluation. The new economic theory must be one of social choice and control. Instead of accepting "the system of natural liberty" of the Classical economics or the rehabilitated Utilitarian norm of the later Classicism, "the maximisation of the net satisfactions", it will borrow from sociology the norm of social welfare, solidarity and progress which is the outcome of the balancing of the fractionalised and individual economic values with integral and indivisible social values—the common ultimate ends of the community and of individuals. Such a norm whose application will vary indefinitely in different situations, enables economics to be constructively critical of existing economic institutions and ends, and to guide society more deliberately to choose between alternative ways and means of achieving present or alternative social ends. Individuals, groups and states each will have its economics, more tentative and less generalised, more variegated in its tools and less narrow and definite in its scope. For every social science will make it available for economics its own concepts, techniques and norms.

The theory of economic values is thus a part of a more comprehensive theory of social values. Only those economic values as such determine the course of economic activities which survive the more fundamental process of social selection. Society has many other sieves of selection besides a purely competitive arrangement of resources, and in fact not merely does society guide by custom and law the ranges of wants and satisfactions of individuals, but it also controls the functions of production, exchange and distribution for its own integral, common ends. Economic theory thus becomes only one strand out of the many theories of institutions, of law, of the state and of the group and institutional life in general. It comes in intimate relations with social psychology as it becomes an account of the cumulative change of economic behaviour, and with ethics in its insistence of treating economic behaviour and institutions as tools for furthering man's indivisible or social ends. Economic theory will cease to remain separate from other types of social theories and from social direction and control, because the social reality is one, and all theories and action are inevitably intermixed.

CHAPTER V

THE SOCIOLOGICAL ELEMENTS IN PRICE ECONOMICS

The Scope of Price Economics

Economic technology and price economics, as bequeathed by Ricardo and Mill, form the principal subject-matter of economics treated in a manner which still indicates a stronger filiation to physics or mechanics than to biology and the other social sciences. The scope of price economics is defined by marking off an economic sphere from the general social and institutional life, including only those phenomena on the criterion of their having a price or of their relevancy to explaining prices. Its test of analysis is the marginal method, which has been used for the examination of the price-making process, of the conditions of equilibrium of separate prices, and of prices in general both of commodities and services.

The marginal or differential method, with the use of the equilibrium theory as a hypothesis, suits very well the explanation of phenomena and relationships of prices and values when these are abstracted from the general social forces and trends for isolated scientific analysis, such abstraction being regarded as a working hypothesis or plan on account of the prevailing systems of competition and ownership, and the supposed mobility of labour and capital. Suffice it is merely to mention here the laws and doctrines that have been formulated in this sub-field—the theory of value and its derivatives, the theories of rent, wages, profits and interest and capitalism, the theories of productivity and income and the theory of economic cycles. Many of these are described in later Clas-

sicism as natural "laws" dealing with quasi-automatic, self-regulating forces of the material world, whose functioning is not much deflected by the human factor or the social situation. Even Pareto in his sociology, comprehends the factors dealt with by economic theory as the major element of his category of "logical action", which also includes the technological and the "Machiavellian" type of political action.

The Social Basis of Utility and Value

The Classical and neo-Classical theory of value postulates the "economic man" with his self-interest, his utilitarian calculus and his personal liberty in consumption. The theory of value shows the relationship between the arrangement of scarce means and the pursuit of any set of ends, which the individual is postulated to deliberately seek alone with an unusual endowment of foresight, and in isolation from his living connection with society and the ideal world. The fundamental drawback here is that it is rooted in individual motivation and choice. In real economic life what are important are not individual desires and actions but the desires and actions of men in the aggregate. In the treatment of grouped desires and satisfactions we can ignore neither the integration of various desires and the influence of institutions and social standards nor their change with the passage of time. As a matter of fact economic phenomena belong to a social group, a population, a system as a whole, which shows certain attributes not possessed by the individuals. Even in the physical sciences the conviction has recently gained ground that large-scale phenomena cannot be adequately explained in terms of their small scale constituents, such as atoms and electric potentials, aggregates of things acquiring new properties in virtue of their numbers.[1] How more imperative is the necessity in a social science of changing the present

[1] Bridgman: *The Logic of Modern Physics*, pp. 220 ff.

modus operandi of seeking all explanations in individual choice and action! It is the mass of choices and actions with which economics is concerned; and in the mass man's motives, ends and activities change.

Any social science, excluding economics, tells us that man's ends are not individual but social; nor do these ends elicit endeavour singly, but these are integrated in a complex system of ends. Many ends, again, are derivative and instrumental; others are intrinsic and universal. The satisfaction of these latter social and universal ends is just as much a consumer's satisfaction as the consumption of food and other necessaries of life, and it arises equally from the distribution of scarce means between alternative uses. The state control of food supply during a war illustrates how production aimed at the satisfaction of social ends or the control of the relations of these ends and all others, cannot possibly be treated by a theory of competitive adjustment.[1] A chronic, food shortage or famine requiring a re-arrangement of the scarce factors demanded by social ends, which may be in conflict with that required by the individual ends, similarly produces a new economic calculus. Again, society controls the sale of drink and obscene literature, commercialised recreation and military service, requiring the production of these goods and services to stand in a different quantitative relation from that established under conditions of free competition. The quantitative relation of services is altered in different social situations, and by divergent cultural patterns. Sex-satisfaction is invested with a price in the market not merely in commercialised vice and prostitution but also in the accepted family ethics, when nature establishes a disparity of the proportions of sexes, or the group regulates the circle within which alone marriages can take place by restrictions of endogamy, exogamy and hypergamy. Dowries and

[1] E. F. M. Durbin: The Social Significance of Theory of Value, *The Economic Journal*, December, 1935.

groom prices as well as compensation for divorce are influenced among certain primitive peoples in India both by natural sex proportions and social standards. Man's ends could only be satisfied within the limitation set not merely by the scarce means of nature but also by social ends and group standards. These latter affect all economic calculuses and ends.

The development towards socialism and collectivism implies that we cannot isolate a sphere of economic life peculiarly suited to a particular set of ends. Where state control does not regulate or select the relations between ends and resources, it is group life, customs and institutions which determine at every point the allocation of man's limited resources and the combination of goods and services which he prefers. Thus the value of the marginal products of mobile resources is influenced at every point by social and institutional norms and preferences. Without an insight into the methods and principles of collective choice, and into the integrated system of ends of a community the theory of value will be inadequate. The individualistic outlook of the Classical theory and the doctrine of marginal utility disregard the reality of man's relations with the society, which is a precondition of both values and efforts, and which regulates the production and economic calculus according to an integrated system of values evolving in the process of social selection and survival. Values thus are essentially social products and relations, though the individual is relatively independent and unique as the economic agent. Economic values arise out of quantitative relations in the integrated system of ends whose satisfaction is limited by nature, time or social choice, price being only a pointer reading. The chief principles which underlie the valuation process, are not marginal utility, nor the marginal productivity of resources, but the equilibrium of the three orders of social norms as the invariably antecedent sociological datum. It is the force of the social

norms, which underlies the subjective estimates of value in the market or the forces of demand and supply. The economic theory of value and prices needs to be assimilated to sociology by the extension and variation of the normative and institutional postulates, and freed from the mechanical outlook of the abstractive, neglective procedure of Ricardo and Menger.

The Social and Psychological Postulates of Classical Theory

Apart from the fact that Classical economic theory fails to comprehend the reality of the social process, and includes several postulates of the freedom of the individual as a self-sufficient, rational and independent creature, which are not tenable, it bridges the gulf between the individual's freedom and nature's determinateness by standardising the market process, and regarding the social traditions and technical institutions of the heyday of capitalism in Europe as the norm. A very particular phase of social evolution was regarded as absolute, something like the matter, energy or ether of the natural sciences.

Freedom of competition, mobility of labour, private property, and education and technical equipment that guarantee both physical and social mobility, whenever the market process demands,—all these are psychological and social postulates which would transform an arbitrary subjective preference of means and ends in individual bargaining transactions into exact and measurable laws and relations of exchange. The laws and relations would be "exact" or would represent statistical generalisations in so far as the psychological and social postulates might materialise in a concrete society. In fact the laws of exchange have the same empirical character as the laws of history and social development with which the former are interlaced. It is the logic of sociology which will, therefore, determine the degree of probability of the so-called exact laws of exchange.

Custom gives its Meaning to Exchange Relations

The family or clan order in savage society, the village communal and guild system in India and China, the feudal organisation in medieval Europe and the collective system in Russia, all establish an authoritative general scale of preference under which labour, property and the exchange system work. In Classical economic theory instead of the authoritarian system we have a hypothetical norm which secures some kind of "harmony" between the wants and activities of "the economic man" in a concrete market, and through time with the forestalled supply and demand of the future. Logically speaking, in every case a given society with its custom or scale of preference gives its meaning and degree of probability to the market relations, but in the case of Classical economic theory "the liberal society of early capitalism" is camouflaged as the general order of an economic system. With the Classical economist the camouflage is sought to be successfully maintained, and the precise mathematical trend of economic behaviour formulated through a most unscientific interpretation of custom as something which is exterior to man. Custom and social habit are regarded as causes of economic friction, as barriers which deflect normal economic functioning, the standard of which is set by limited personal observation and a species of introspection, characteristic of the older Anglo-Saxon psychology.

Custom and status should not be treated as irrelevant, labelled as mere causes of irregularity in economic behaviour. These embody the living fabric of human and social values, which are selected by the community through a process of trial and error, and which guide the distribution of scarce means among individuals, and within which the community's general scale of preference and the economic process are organically set. To illustrate, in primitive economic life we often find a variety of festivals, amusements and expedi-

tions which are intimately connected with the pursuits of arts and crafts, the practices of agriculture and horticulture and the rearing of cattle. Malinowski in his studies has shown how such expeditions and recreations are largely the source of the interest of the Melanesians in life, giving zest to labour, and making it worth while to produce. When the British abolished the custom of head-hunting it destroyed for the Melanesians much of their interest in living; for with such people head-hunting was not merely a ceremonial exercise, accompanying enterprise but was also connected with their various economic activities. With the loss of interest due to dismantlement of head-hunting the Melanesians largely stopped working, and their depopulation proceeded apace.

It is the orientation of social interests which supplies the incentives of labour, acquisition, expenditure and recreation in primitive culture. Many primitives are without clothing or fixed habitation but enjoy pride in their display of ornaments. At higher levels they often produce far in excess of actual needs, and employ large quantities of accumulated food and wealth for festive display, for ceremonial yet useless donations, sometimes even for mere destruction, often on a gigantic scale. Malinowski concludes that there is one very important fact which contradicts the merely utilitarian view of primitive economic incentives; the products of savage industries in general, far from being made with the minimum effort required for their utility, show a lavishness of artistic detail, of decoration and pedantic finish, which would put to shame any civilised artisan. The joy in the work, the satisfaction of perfect craftsmanship, the artistic passion for the general appearance of the finished product dominate savage industry and enterprise.

One of the basic forces which guides the economic life and social organisation of primitive peoples throughout the world is the custom or law of reciprocity or requital.

Studies of Thurnwald, Malinowski, Firth and others have shown that the same notion that demands the eye for the eye and the tooth for the tooth, and underlies the blood feud when wrong is inflicted, develops an arrangement of exchange of gifts, often involving deferred payments in savage society. Gift exchange has developed into an elaborate ritual among the Trobriand islanders who inhabit a wide ring of islands. Necklaces of red shell pass constantly along definite routes in a clockwise direction to the men who are in the Kula; in the opposite direction there pass bracelets of white shell. Every article travelling in its own direction is exchanged for articles of the other class travelling in the opposite direction. The transaction is not merely economic; it appeals to several motives other than economic self-interest, has a wider social or ceremonial import, and is maintained by a combination of interests and circumstances. Regional conditions, accounting for differences in natural resources as the economic contrast between the hills and the plains or between different islands and neighbourly tribal relationships, foster economic intercourse which is kept in force by various sanctions that would naturally differ among different primitive peoples. Among these are the sense of propriety, fear of loss of self-respect and prestige, if an individual or tribe does not fulfil its obligation. Publicity which makes the exchange or bargaining a collective affair, the fear of retribution or witchcraft and the individual's economic self-interest also enforce agreements.

No doubt the silent trade of the primitive peoples is kept going by the *ensemble* of customary and psychological forces which constitute the binders of savage social structure. Tribal disintegration or loss of interest in the ceremonial, on the other hand, would mean that such arrangements and agreements lose their efficacy, and exchange or trade would suffer. In primitive communities it is also custom which lays down differences of rank or of calling that govern the rights and

duties of individuals. Among many Negro communities in Africa differentiation in rank and power has led to the ownership of all the land and most of the means of production being vested in the chief and his retinue, the rest of the tribe standing to them in relation of economic bondage.

The development of private property, of the economic form of marriage and of slavery and differentiation of occupations have governed the nature of economic toil and standards of living of different groups in primitive society. Within the savage society the share of individuals in the total amount of labour and the tribal dividend is accordingly governed by their social ranking; on the other hand, economic inequalities established by the fixed social gradation contribute to maintain social distance. Except in modern industrial civilisation the pursuit of wealth is intimately associated with the pursuit of power and status, of domestic protection and with every day requirements, forming a strand inter-laced with the complex social texture. Magic, religion and economic pursuit all help to weave the fabric; each without the other becomes futile.

In the feudal society of medieval Europe both the standard of living as well as economic functions were assigned by custom on rigid class lines, and wealth was one of the incidents of status in the feudal hierarchy. It was class status which demanded not merely the kind of special tasks, such as the hunt, state-craft, and chivalrous pursuit for the lordly classes, and agriculture and handicrafts for the subject classes, but it also determined the kind and quality of food consumed, clothes worn and dwelling places lived in by the different social groups.

Sombart observes, there is not one sign of love for economic activity throughout the whole pre-capitalistic period. High days and Holy days were very numerous; for nearly half the year people were idle, and economic activities were carried on no faster than was necessary to provide for the

customary requirements of the people. The feudal order was an orderly, harmonious and stationary society in which free enterprise was condemned as avarice. Prices were approximated to a standard of fair rates, and wages were governed by economic conventions.

In the Eastern village communities we find a similar super-imposition of custom and status upon economic activities and relations. In the village communities, custom determines the economic functions of each occupational group or caste, its status and standards of living and craftsmanship, and prescribes a minimum standard of wages corresponding to average family needs for each group. For every class of artisans, servants and dependents of all sorts in the villages the plane of living is not allowed to be encroached upon by the forces of mere demand and supply. Status as well as customary wages have all been determined according to a social norm, which replaces the bare struggle of living by an endeavour of the well-being for the individuals, for the occupational groups and for the community as a whole. Nor are the customary wages in the villages and craft guilds so rigidly fixed as are often supposed; these vary with the nature and volume of production and condition of the harvests. In the exchange relations in Eastern village communities and craft guilds custom or the scale of valuation is not external to the market process, but becomes an economic datum, deflecting prices, wages and volumes of production from the levels to which forces of the market might lead in the Classical analysis. In the liberal society of early capitalism it is custom, again, which has maintained freedom of competition and enterprise as one of the conditions of the marketing process.

The Social Pre-Suppositions of the Theory of Distribution

The analysis of the distributive process and relations as part of the exchange system implies even more sectional

sociological postulates which cannot be universally valid, have proved inadequate, and have been the subject of much trenchant criticism. Neither the Classical law of population nor the iron law of wages, neither the theory of mobility and equalisation of wages and profits nor the theory of voluntary saving and changes in the rate of interest, have stood critical examination. There were all sociological and psychological "middle principles", which were interpolated into economics without a critical analysis. Mill observes in his *Logic*: "When states of society and the causes which produce them are spoken of as a subject of science, it is implied that there exists a natural correlation among these different elements; that not every variety of combination of these general social facts is possible, but only certain combinations; that, in short, there exist uniformities of co-existence between the states of the various social phenomena." These uniformities are corollaries from the laws of causation, since each co-existing state is itself the effect of causes. The laws of sequence, if discovered, would give us the middle principles or *axiomata media* of sociology.[1] Apart from the correspondence which historical economics discerns between stages of economic development and forms of domestic organisation, law, polity, and ethical and religious beliefs, there is, in a more limited field, correspondence between social distance or mobility and the disparity or equalisation of economic conditions and opportunities, which influences rent, interest and profits. Classical economics accepted uncritically certain intermediate generalisations of sequence, and built their theory of distribution on these.

The growth and accumulation of capital and the extension of the margins of cultivation do not follow in logical sequence everywhere, but were implicated in the special geographical and technological background of the industrial

[1] *Vide* the discussion in Ginsberg: *Sociology*, Chapter I.

revolution in England. The accumulation of capital goods was the social demand of an age which has not as yet forgotten the prodigality of the knights and barons of the Middle Ages with their clientele of idlers, menial servants and retainers. Man must save and invest his surplus in productive enterprise, or employ it himself in directing labour to increase the instruments of production in order that a class of businessmen can arise, and the profit motive was rationalised as the prime mover of the transition from unsound to sound production economics. Similarly the distribution of landed interests as between the three separate classes, landlords, capitalist farmers and hired labourers, the gradual extension of cultivation to inferior zones, and the existence of an agricultural surplus for the subsistence of the cultivators are all, as amply shown by critics of the Ricardian theory of rent from Jones and Carey to Mitchell, special historical conditions. Further, the Classical economic theory of distribution took into consideration only one phase of the problem of distribution *viz.*, that concerned with the sharing of income as between three distinctive income classes *viz.*, the landlords, the businessmen and the wage-earners to the complete disregard of the problem of distribution among individuals. Such an abstractive procedure was connected with the manner in which the problem of distribution was approached by businessmen in England during the prolonged Corn Law controversy. Ricardo approached the contentious issue, debated in the country and in the Parliament, in the light not of the prevalent agricultural distress but of the incidence of the high duty on foreign imports of wheat on the costs of industrial production. Ricardo's theory was coloured by the irritation of the manufacturing districts in England against the new scale of import duties, and the lowering of the scale, which was due to the opposition of industrial leaders, was simply a victory not of the laws of economics but of the manufacturing interests whom Ricardo represented. The Ricardian system

assumed a conflict between the landlords and the rest of the community, including business classes, which does not hold good of all stages of agricultural and industrial development. The hostility to landed interests, characteristic of manufacturing England in the early part of the nineteenth century, has now become a part of the heritage of economic theory.

Need of Recasting the Hypotheses relating to Technology and Supply and Demand

But once these came to be regarded as economic laws rather than social data relating to the supply of land, labour and capital and the adjustments of the productive process in time, the process of supply and demand was guaranteed a stability and persistence. It is in this manner that the psychological postulates of the economic man and perfect competition were buttressed by a series of surreptitiously introduced hypotheses as regards technology, social stratification and evaluation, nay, of social and technical progress as a whole. But economic maladjustments did not fit in with the hypothetical construction of the dynamics of social progress, and demanded more realistic approaches. An interesting instance is afforded by the theory of non-competing groups, which is based on the central fact of social gradation in an industrial society, and illustrates the process of assimilation of sociological principles into the framework of the neo-Classical theory of wages. Similarly the Classical theory of international values has been re-interpreted on the basis of the recognition of non-competing groups as a sociological datum. Again, the theory of imperfect competition focuses attention to the conditions necessary to perfect competition which were neglected by the abstractive procedure of analysis. As a matter of fact the present tendency even among the neo-Classical writers has been generally to cast away the hypothetical sociological frame-work, whose existence cannot be proved by deductive reasoning, and to construct a

new coordinate system of empirical research based on concrete realistic survey. There is a more rigorous definition of the conditions which are necessary to an equilibrium in order to analyse why a concrete situation differs, and leads to a different result. The picture of the equilibrium as it deals with the forces in a dynamic situation is also modified in order to be made into a verifiable hypothesis.

In the Classical analysis it was not merely the evolution of the technique of production but change even in the objective social factors, such as the system of individual ownership and distribution, the growth of population and the dependence of the levels of wages and profits on the latter, were all deprived of the character of independent data and historical facts that must exclude deduction by general reasoning. The modern system of mass standardised production is such that the economic position of labour and consequently its freedom have been considerably reduced as a result of the constant processes of substitution and the impossibility of labour owning the means of production. The structure of business production has also been considerably modified as a result of the development of corporate management characterised by lack of flexibility in functioning in relation to changing technical conditions and shifts of demand. Increasing industrialisation has meant a greater proportionate increase of capital goods and manufactured goods as compared with producer's goods and raw materials, while the consumer's demand has shifted more towards comforts and luxuries of highly elastic demand. These are among the reasons which have made the structure of production more liable to shocks and fluctuations than in the previous period. With the growth of a more complex and a more extended structure of production, characterised by a long time lag between the first productive act and final consumption, incidental agencies of communication and control have begun to play a dominant part in economic life. Now these for-

merly unnecessary and adventitious agencies of economic intelligence are connected with the entire social background, education and psychology of the industrial community. The co-ordinating factors and processes which play dominant rôles in smoothing out incompatibilities and distortions in the highly integrated structures of prices, finance and credit are essentially sociological data, to which adequate recognition is not given by orthodox economics.

Restatement of the Theory of Prices

The price system which is a concomitant of modern industrial economy has also been considerably modified. The end of *laissez-faire*, the increasing control of the state, the development of monopolies and trade unions have introduced elements of inelasticity into the system of prices. With the extension of the structure of production in time, financial obligations fixed in amount cannot be readily adjusted to changing price levels and to other shifts in economic conditions. The growth of such rigidities and the concurrent development of strictures of other types have given rise to new difficulties, as pointed out by Mills: "A changing technology has been cramped within a price and financial system growing constantly less flexible and less adaptable to change. Phenomena of apparent over-investment, excess capacity, and over-production are, in considerable part, reflections of this combination of incompatible elements. Tardy recovery from a state of unbalanced production, disparate prices, and slowness of adaptation to changed economic circumstances are attributable to the same condition."[1] The organisation of industrial production has not only shown less efficiency and adaptability, but from the side of distribution of wealth the price system has also become incompatible with social justice. Thus the broad premise of

[1] Changing Economic Life in *Economic Essays in Honour of Mitchell*, p. 389.

social welfare as relating to a flexible and responsive system of prices now requires re-examination.

The present distributive system with its growing disparity of wealth and opportunities has made it impossible for the price mechanism to secure the maximum aggregate welfare of the community. What shall be produced and consumed is determined by effective demand, and for a considerable section of people in industrial civilisation with low purchasing power the demand is not effective. The stratification of income groups, representing incomes of different sizes and types, and of labour and rural population determines allocations of demands of goods and services, and effects large distortions in the structure of production. The disparity of incomes, with its sequel of industrial unemployment, creates a hiatus between money expenditure and money returns. In a community of persons having unequal needs and incomes, prices are not the precise measure of efforts and satisfactions and the correspondence between money cost and real cost is necessarily inexact. Nor does the price mechanism in a regime of free competition ensure under modern technological conditions the circular flow and improvement of production of goods and services, not to speak of its social efficiency which the orthodox economists postulate.

On the supply side of labour we can hardly do justice to the social man, whose incentives and aims of labour are alike governed by the family and the group, by treating population as a process continuous with the supply and demand of the objective world. The notion that population automatically increases in response to demand for goods and services, and regulates itself by external checks has become incompatible with modern social ideals. The experience of different countries that a rise in the standard of comfort under modern conditions leads to a voluntary limitation of the birth-rate, and that poverty and malnutrition, with

loss of inhibiting capacity, co-exist with prolificacy, has raised the population problem from the economic to the social and ethical planes, even among the orthodox economists. In fact with the spread of democratic ideas and institutions the notions of optimum and over-population have become highly significant in all industrial countries along with a desire for regulating population policy. The economist's outlook in population study is, indeed, altogether changed, the emphasis being shifted from the spirit and order of the law of supply and demand in the breeding of children and maintenance of standards of living to the means of social control of numbers and the aims and objects of such regulation, due regard being paid to the qualitative and selective aspects of the movement of population. As a matter of fact the trend of population had long ago been found to be peculiarly incapable of elucidation in terms of the law of supply and demand; and in fact Classical economists had to turn to some kind of biology and study of family life and moral standards, but their biology was wrong and their sociology even poorer.

Re-statement of the Theory of Equilibrium

It was when dynamic conditions and trends were analysed that the sociological postulate of economic and social progress as an automatic self-regulating process, which the individual has to obey, and which partakes of the irresistible, objective character of his material environment, was laid bare in its nakedness.

The distinction between the stationary and dynamic equilibrium illustrates the assimilation into the traditional economic theory of the cumulative effects of changes in time of human numbers, land and the state of the arts of production, the two latter changes being given less prominence. The eighteenth century norm of the natural order limited the search for order in changing social phenomena to the

conditions imposed by fixed external nature and basically fixed original nature of man. An unchanging framework of private property and the free exchange and competitive system defined the course of social change, which was always reduced to the level of the individual, the starting point as well as the goal of Classical economic theory. Ricardo did appreciate the economic influence of changing social phenomena, but as he proceeded with the analysis of the changing economic world with the help of the Malthusian law of population increase and the accumulation of capital as a subordinate, the whole abstractive procedure became a single factor explanation, not to speak of the rigidity of his laws conceived as timeless and generically independent of human institutions and evaluations. The moving economic reality was distorted when only one factor, viz. population, was considered as implicating the new situation, without an adequate consideration of the changes in the relations between the social and individual phenomena assumed by him as fixed. Many of the explanations of business cycles in recent times similarly commit the error of positing the changes of only one factor to which all the other factors making for cyclical oscillations are subordinated. Here, again, the approach to dynamic economics as a modified static scheme hardly takes into account the economic "whole situation". Significant changes of the theory of equilibrium in the later Classicism also illustrate attempts to reach general traits of changes not merely in one particular economic phenomenon in the course of time, but also in the relations among various economic phenomena. No longer are the simple conditions of perfect and stable equilibrium and the uniformity and rigidity of human behaviour in a closed system posited. Both the environment with its technological elements as well as patterns of economic behaviour are presented as changing in inter-dependence with one another in the system of dynamic economics.

In the dynamic economic analysis one does not derive the social from the individual by linking the various social phenomena such as wages, profits, interest and amount of capital in the concrete economic situation with the individual behaviour as the antecedent datum. Such features of economic life as are treated as self-evident in static economic theory as the equality of prices and the mobility of labour and capital are relics of the older atomism and utilitarianism. The kernel of static economics is thus characterised by Kuznets: "The decomposition of social phenomena into the individual activities which determine them, the demonstration that the various phenomena are all inter-connected through this individual activity and are marked by persistent characteristics in the variety of their concrete manifestations—this analysis is the essence of static economic theories."[1] In the dynamic economic analysis there is emerging the larger sociological view that the social process and not individual behaviour is the datum. Thus individual behaviour becomes only one of the factors in social change and this also is regarded as socially conditioned. The analysis of social phenomena, and their mutual relations in a changing total situation would no longer be reduced to the level of the individual, whose motives and behaviour are no less plastic and mobile.

Thus the picture of equilibrium would deal with the congeries of social phenomena and of their changing relations, and be construed not as a finished sketch of the actual world, but would be inevitably modified as the forces which are at work in the actual world develop and bring about through their cumulative and reciprocal effects a new "total situation." The picture of the equilibrium is what Max Weber would call an ideal construct, and the fuller development and refinement of the theory present not only a careful

[1] Static and Dynamic Economics in the *American Economic Review*, September 1930.

statement of the conditions necessary to equilibrium but also the reasons why concrete situations are different, producing different results.

Veblen's Theory of Institutional Genesis and Change

But it is socialism as well as institutional economics in America through their complete departure from the concept of equilibrium and their shift of interest from value and distribution, which marked a more striking break between the traditional static and dynamic economics. The Marxian analysis of economic change implicated in the institutions of ownership and social classes in capitalistic society showed a broader understanding of the inter-dependence of the various social phenomena and of social progress as a whole than Classical economics has reached even at its best. In fact the Marxian interpretation contributed in the largest measure towards the breaking away from static economics. Veblen's theory of institutional change showed a greater impress of the later biological and psychological sciences than historical materialism. While with Karl Marx the lever of economic change is class antagonism, arising out of a rational calculation of divergence of interests, in Veblen it is social conditioning. The cleavage in modern industrial society is due, according to Veblen, not merely to the institutions of ownership and individual accumulation of wealth, served through the price system, but also to contrasted "habits of life and thought" or cultural patterns of the various classes according as they are habitually preoccupied with the machine or business enterprise. While Veblen regarded the sociological and psychological analysis of the economic classes in Marxism as too inadequate and abstract, he also accepted a philosophy of history far different from that adopted by Classicism. With Veblen civilisation is a continuous conflict between the predatory and the industrious, which has assumed different phases with the

evolution of the social structure and the industrial arts. The pirate chieftain of one epoch becomes the captain of industry of another; the robber baron levying upon peaceful trade becomes the financial magnate. Alvin Johnson well observes: "The profits of high finance which orthodox economics imputes to the function of efficient organisation of factors of production and which Marxian economics treats as a deduction from the product of labour are to Veblen the usufruct of a rich and versatile industrial technique developed out of ancient germs by the proficiency of modern science." Veblen showed a profound understanding of social psychology in estimating the influence of attitudes and habits of life and thought along with "selfish calculating class interest" in bringing about the historical movement. He observes: "while class interest may count for much in the outcome, this answer is plainly not a competent one, since for one thing, institutions by no means change with the alacrity which the sole efficiency of a reasoned class interest would require."[1] Men's habits of life and behaviour, Veblen had the keen eye of a social scientist to discern, are the outcome of long conditioning, and are "of too pervading a character to be ascribed to the influence of a late or brief discipline." Man's behaviour changes are due to a "drift of habituation" rather than a dispassionately reasoned adaptation of conduct to the circumstances of the case. Thus it is not Marx but Veblen who is right in the analysis of the mechanics of social change, which is effected less through "a selfish calculating class interest" in respect of ownership, production and distribution, and more through a change of the "propensities and attitudes" in the classes carried over from the past. Finally, with Veblen are introduced for the first time into economics Darwinian ideas of the selection and survival of institutions and patterns of behaviour. "Institutions are habitual me-

[1] *The Place of Science in Modern Civilisation*, p. 314.

thods of carrying on the life of the community in contact with the material environment in which it lives. The evolution of social structure has been a process of natural selection of institutions. Social structure changes, develops, adapts itself to an altered situation, only through a change in the habits of thought of the several classes of the community; or, in the last analysis, through a change in the habits of thought of the individuals which make up the community. The evolution of society is substantially a process of mental adaptation on the part of individuals under the stress of circumstances which will no longer tolerate habits of thought formed under and conforming to a different set of circumstances in the past."[1] It is true that Veblen in his treatment of economics, as a branch of biology, did not define the nature and significance of economic institutions, and how these differ from other institutions or prevalent habits of thought, how other institutions govern or modify ranges and types of economic habits and conduct, and, again, how all institutions and patterns of behaviour form a composite and integrated whole. Yet his conception of the dynamic character of the social structure, of the prevalent or dominant types of attitude and aptitudes, of social relations, habits of life and temperament of the individuals showed a great extension and deepening of dynamic social considerations in economics. Thus his criticism of older economics is well justified. "For all their use of the term "dynamic" neither Mr. Clark nor any of his associates in this line of research have yet contributed anything at all appreciable to a theory of genesis, growth, sequence, change, process, or the like, in economic life."

J. M. Clark suggests that if the mechanical connotations of the term "dynamic" make it seem appropriate to limit it to quantitive changes, then the more qualitative changes stressed by socialistic and institutional schools, such as the

[1] *The Theory of the Leisure Class*, p. 192.

development of the basic legal institutions of property, personal liberty and contract, of forms of business organisations and of competition, or dynamic changes or long run evolution in human nature itself may be called 'evolutionary.' As a matter of fact Veblen did consider that economics stands in need of rehabilitation by following the evolutionary method, and laid down its major premises, labelling the orthodox economics as 'taxonomy'. Evolutionary economics dealing with changes of social phenomena in their totality and in their mutual changing relations must come into grips with standards of social choice and ultimate values. Clark draws attention to old evaluations and judgments carried over unconsciously into fields of dynamic economics where different conceptions are called for. Utilitarian standards of evaluation persist, despite the fact that they are based on a static view of human nature, and should be radically modified or superseded when a dynamic view is adopted. Private property is too often judged as if it were a fixed unit character, instead of an evolving thing. The student may easily fail to recognize that the concept of capital as a self-replacing fund of material means of production is a static concept and needs to be broadened into a whole family of related concepts for purposes of dynamic study. Here discrepancies between savings and investment in capital goods may be vital to a theory of cyclical movements, while pecuniary yield and physical productivity may be well nigh divorced from one another. Criteria of evaluation and judgment need to be searchingly scrutinised to see that they are not invalidated by implicit static assumptions.[1]

The Psychological and Sociological Background of Industrial Fluctuations

As industrialism advanced and technology was revolu-

[1] J. M. Clark: Statics and Dynamics in the *Encyclopædia of the Social Sciences*, also Accomplishments and Prospects of American Economics in *the American Economic Review*, March, 1936.

tionised the breaks and discontinuities in the sphere of production and distortions in the spheres of exchange and distribution challenged fresh reconstruction of dynamic economic theory. The process of substitution, the cause of widespread unemployment, led to organised unionism and collective bargaining, which deflected wages from the calculable level. The development of monopoly, a result of the increasing risks to capital goods, has created new problems of prices and distribution, which overstep occupational and national boundaries, and belie the smooth and calculable circular economic flow. The later Classicism assumes the possibility of a particular source of supply being confronted by a downward sloping demand curve in the case of absolute monopoly. It is, however, now realised that the phenomenon is far more widespread than has been commonly supposed or implied, and the chief basis of this claim is actual observation. The phenomenon occurs so frequently that it has suggested recently the doctrines relating to imperfect competition.

If, imperfect competition, decreasing costs and the absence of a stable equilibrium in the general level of output as a whole be recognized, the psychological theory becomes a valid explanation of trade cycle phenomena without reference to miscalculation or maladjustment in organisation. An optimistic or depressed mentality, which leads to the choice of a higher or lower level of equilibrium of the industries, is governed by group influences that thus enter into the structure of the market and prices. The psychology of different types of entrepreneurs and bankers, which fights the now normal discontinuity and immobility of the forces of the market, the peculiarities of industrial technique and organisation, which effect large and discontinuous changes in the use of the resources of labour, capital and machinery, the gesture of the financiers which influences the rate of interest, the hoarding and investment of capital and the large and sudden changes in industrial expectations,—all these represent new

social factors in economic development as a whole, which dynamic economic theory has to reckon with. In the various theories and hypotheses of business cycles, whether there is a stress of weather influences or mental attitudes of the bankers and the entrepreneurs, or, again, of the factors of technology, the system of distribution and high finance, the sociological "whole situation" outlook is clearly emerging. Movements of output, prices and credit all act cumulatively in both directions, and are often interlaced with one another as well as with the inequalities of the distribution of wealth, prosperity, privilege and economic power. The dynamic economic theory is ultimately concerned with the totality of conditions which determine the equilibrium of the level of output as a whole in contradistinction to the particular equilibria of each industry, which are determined by the demand and cost conditions of each. In a recession many particular disequilibria may be set up, but the leading characteristic is a general cumulative running down of activity. It is the failure to understand precisely what factors determine this general equilibrium of output as a whole that is also responsible for perplexities concerning movements away from it or changes in it. The general equilibrium of output could be studied only with reference to the industrial "whole situation." It is subject to variations inherent in the modern economic and industrial process. Agricultural fluctuations connected with meteorological cycles tend to promote pulses of stimulation and depression of industries. Platt Andrew observes in this connection: "One cannot review the past forty years without observing that the beginning of every movement towards business prosperity and the turning point towards every business decline was connected with the outturn of crops." There is also a self-renewing rhythm in the real costs of production in the mechanical-technic processes in general. During the later stages of a depression there is a cumulative increase of the efficiency of labour, a progres-

sive writing off of inflated capital charges, and a progressive overhauling of methods of technique and organisation which breed renewed activity. On the other hand, during the later stages of a boom there is a progressive recourse to inferior instruments of production, a progressive utilisation of over-tired and recalcitrant labour, wasteful methods of management, and inferior business leadership, which ultimately breed collapse. The principle of acceleration, which is adopted by many cycle theorists, and is especially made familiar by J. M. Clark is an illustration of one of Tarde's famous laws of limitation and sympathetic resonance. The process of acceleration (intensification) consists of a disproportionate increase or decrease of stocks and working capital, the rate growing or decreasing with the stage of production.

Again, investments in the fixed instruments of production and transport, which are large and expensive, are discontinuous, and these also exhibit some connection with discoveries and inventions that have their spells. Robertson in a succinct analysis of the causes of trade cycle refers also to certain legal and social features of the economic system which promote instability of prices and output. Competition aggravates miscalculation, and consequently the violence of the trade cycle. The wage system leads to a real disharmony between the interests of the employing class, which dictates the course of production and those of society as a whole. The present systems of private property, ownership and distribution of wealth engenders a chronic tendency to over-saving, manifesting itself during the boom in the construction of more instruments than will be able ultimately to find remunerative employment, and during the depression in, among other things, a piling up of idle bank-balances. Professor Keynes stresses this disharmony, and also attributes this to the fact that men's savings periodically exceed their investments *i.e.*, the money represented by these savings is hoarded in the banks or elsewhere and so "wasted". He pictures the economic

misfortune which overtakes a banana-growing community which wastes its medium of exchange by a somewhat similar process.[1] Wilhelm Röpke rightly points out that over-saving is an essentially dynamic concept not a static one. It is also a sociological concept. During the upswing of a cycle, there is a general rise of incomes which corresponds to the increase of the social net product made possible by the mobilisation of idle productive resources. Up to a certain point consumption and accumulation, reckoned in absolute figures, both rise without any visible strain. This is a factor which is irreconcilable with the whole trend of post-Böhm-Bawerkian theory of capital, which is individualist and abstractive, and treats consumption and accumulation as strict and absolute alternatives. Further writers, like Francesco Vito, urge that the increase of the entrepreneurial form of capital formation, and a general change in the social structure of incomes which is characterised by an expansion of profits and other variable incomes relatively to the less variable incomes, and which is therefore equivalent to a rise of the incomes more likely to be saved rather than spent, are one of the major causes of the boom. The assumption of social stratification and of its effects on saving and expenditure is derived from sociology. The remedy proposed is to increase the purchasing power of the wage-earner, whose desire for necessaries and comforts is held to be steadier and more elastic than the desire of the rich for luxuries.[2] Or, as an alternative, it is proposed to restrict production in certain branches permitting an easy adaptation of productive capacity to an industrial system, which is not expanding quickly enough to compensate for the sag in particular industries. The inadequate employment to labour and capital in particular industries may assist a trend towards equilibrium, but it will inevitably lead to the reduction of total production, and raises the wider consi-

[1] Keynes: *A Treatise on Money*, Volume I, pp. 176-8.
[2] Robertson's article on Trade Cycles, *Encyclopædia Britannica*.

deration of a people's social aims and objectives. Here also we are face to face with changing data of institutions and norms of social welfare and harmony which are being assimilated into the corpus of economic theory.

Introduction of Sociology into the Corpus of Dynamic Economic Theory

In the study of credit and trade cycles, then, we find an appreciation of the sociological "total situation" in the following: (1) the stress of ecologic unstability as influencing agricultural and industrial output; (2) the recognition of an automatic and self-renewing rhythm in the mechanical-technic equipment and structure of modern industry, built on the foundations of a changing social-legal framework of law and recognised freedoms; (3) the appreciation of the effects of social gradation and the social structure of incomes on saving and expenditure; (4) the analysis of social, economic and psychological factors in close action and interaction and the conviction that the isolation of the business aspects falsifies the true causal relations; and (5) the historical perspective that the modern structure of business and industry with imperfect competition and monopoly, unemployment of labour and risks to capital and domination of the motives of seeking profit and economic power are all features of a specific historical order and phase of economic organisation in Western Europe. Thus modern dynamic economic theory is based on the ground plan of technological, institutional and psychological data. The chain of analysis of the economic process could, therefore, be interpreted more adequately at every link by a sociological examination of both causes and results. The timidity and optimism of business leaders, whose miscalculations create "a great wave of erroneous judgment", depend upon domestic political uncertainty and international friction, which may warp their judgments and accordingly aggravate the violence of the trade cycle. The loan policy

of banks and currency policy of governments are also largely deflected by political considerations and by social policies, with reference to expenditure on public works for mitigating unemployment. The social distance between the rich and the poor perpetuates a chronic disharmony between the interests of the employers and of society as a whole, which normally leads to unstability of prices, output and employment, while the formation of trusts and combines often aggravates it. The entire social and industrial structure, with its unequal distribution of wealth and freedoms, promotes excessive saving and accumulation of capital and unremunerative investment in the instruments of production, on the one hand and excessive and idle bank-balances, on the other. Thus certain inseparable social features of the modern industrial structure are connected with an automatic maladjustment between output and consumption, and only a full sociological examination of the different phases of the trade fluctuations and their backgrounds can complete dynamic economic theory. What features of the modern industrial structure govern the rate of economic change? What elements contribute to friction as well as rigidity, impeding their reciprocal adaptations? How can those elements, which are more flexible and responsive, take over the inevitable lags in economic adjustment? In economic planning, what elements and processes require to be controlled and directed? It is to these vital questions extending into the backgrounds of economic progress in social psychology and sociology that dynamic economic theory must find adequate answers.

Classical economic theory pre-supposed a sociology without knowing or admitting it. Dynamic economic theory is reconciling itself with sociology in order to be able to solve the insistent problems presented by the real world, which no longer remains a distant ideal. Expelled by the front-door where Professor Robbins has recently hung up the challenging notice of "No admission", sociology is now entering by the backdoor the theoretical structure of economics.

CHAPTER VI

THE THEORY OF ECONOMIC AND NON-ECONOMIC MOTIVATION

Institutional economics, as we have envisaged it, is a branch of social psychology, and is co-ordinate with all the social sciences that mediate between biology and civilization —anthropology, history, politics, ethics and sociology. Social psychology has made definite advances recently and is no longer in an inchoate stage. It will be difficult to indicate in a short compass all the possible contributions of social psychology to economic theory, but certain important ones may be considered here.

(a) The Theory of Wants and Activities

Instinctive Basis of Wants

Economic values being derivative interests are usually compounded of a number of instincts and desires. As against the catalogues of instincts postulated or inferred, we have accordingly to group instinctive reactions. The following desires or interests seem to be the determining factors of economic behaviour:

Economic behaviour
- Food and acquisition.
- Sex.
- Herd.
- Self-assertion.
- Aesthetic impulse.
- Construction.

Each of these desires or interests, when it corresponds to a similar instinctive reaction in individuals and in groups,

but its fulfilment is restricted by the forces and forms of nature or indirectly by group standards, gives rise to economic phenomena. Man's desires or interests do not, however, operate singly, but are fused with one another in their functioning. A small change in any of the interests would lead to a new orientation of the motive and the economic behaviour pattern. Instincts and desires shift in their combination, so do patterns of behaviour constantly renew themselves. Thus the process of valuation is not a simple relation between a well-defined unit desire and its object in a simple quantitative sense, as the economist usually posits. Economic values are as volatile and changing as human nature itself. Such a consideration would introduce a certain amount of fluidity into our economic concepts. Economics has treated human desires, and values accruing therefrom, as data which are uniform and stable. In fact it is the stability of desires and values which underlies the economic analysis that the desires and values are the causes of economic activities in a scientific sense. Modern psychology shows us, on the other hand, that wants from their very nature are unstable, ever-varying in response to various kinds of influences; while the objects, which are rationally formulated in economics, are themselves provisional and instrumental. Man's wants become ever more new, socialised and rationalised; and his activities which are directed forward and upward indefinitely involve criticism, evaluation, judgment. Thus the creation of values is more significant than the satisfaction of wants, and neither economics nor ethics and sociology can afford logical separation from each other.

Wants are Stabilised and Graded by Society

Whenever there is a conflict between the primary satisfactions of food and sex and the values which the group has created and conserves, man who is eventually an evaluating creature often prefers the latter. The stress of group

standards even in man's biologic satisfactions is illustrated by man's desire of food, clothing and shelter of the socially approved kind, and by the numerous taboos and conventions, which differentiate between his legitimate and illegitimate sex satisfaction and experience. Economic values are symbolic of man's social relations; it is the group which is the creator, conserver and destroyer of values of most economic goods and services. The idea of scarcity, transferability and power can hardly be separated from society as a factor of value creation. Poverty is intolerable not merely because of the deprivation of man's biologic needs and satisfactions, but also because it leads to loss of his status, class or caste. On the other hand, in countries with different want-patterns and social objectives, an incomplete satisfaction of the primary wants does not necessarily bring with it depression and loss of respect.

What the economist often describes as conventional and cultural wants also vary from region to region and from age to age, and it is these which superimpose an extra-economic scale on man's values. The interpolation of moral, aesthetic and cultural standards into the desires of man becomes more and more significant as we rise higher in the economic scale. Social progress itself implies the integration of desires and ends, which makes it necessary to give up the distinction between economic wants and other wants. In fact, all desires and ends become economic when these are resisted by the limitation of resources of the environment, natural or man-made, and by the unequal capacities of man. It is only man's ultimate values which defy limitation of their realisation set by the use of objective resources; such ends also defy reduction to laws. On the other hand, when the biologically grounded instincts and satisfactions do not integrate with man's social and cultural values there arises an inevitable conflict in behaviour. Such conflicts, which are causes of personality disintegration, arise out of the normal course

of mental life and are stressed often by institutional factors, especially when the economic, political, familial and other institutions pursue cross purposes, and are disharmoniously related.

The Inhibition of Vital Urges and Interests

As the instincts and desires group themselves, there may be in-coordination, accentuation or inhibition of certain vital instincts and functions. Social psychologists such as Parker, Tead, Williams and others have been long focussing attention towards pathological conditions both of the individual and the economic group due to accentuation or inhibition of some of the vital urges. The modern institutional environment is, indeed, replete with instances of repression, and consequent psychic segregation and social revolt. It is important that economics should profit from the contemporary psychological discussions relating to the mechanisms of repressions and their effects upon the individual mind and on economic and social life and values, although it must be confessed that the movement represented by Freud, Jung, Rivers and others deals mainly with the individual psychosis to the relative neglect of the social situation. While the social *milieu* elicits, organises and grades human wants, it is also true that it thwarts or represses several of man's fundamental dispositions, such as curiosity, property, trial and error and the rest, causing vague distress or unrest in society. With most people in modern industrial society the grind of business famishes the instincts, which, therefore, find play either in the craving for sports, recreation and gambling or in organic excesses, drink or vice. The discipline, the monotony and the meaninglessness of one minute fragment of a task, the dreary surroundings in industrial towns, make life more irksome than ever before it has been for free workers. The series—hunter, herdsman, husbandman, craftsman, artisan—constitutes a curve away from the instinctive which finds

its terminus in the machine-tender with little in it to rouse the impulses of trial and error, curiosity or constructiveness.[1] To combat absolute dullness and dreariness in industrial labour and the consequent individual and social neurosis mere adjustment of methods of production and scheme of distribution is not enough. Many thinkers urge that we need a revision of the entire social and economic system which is encouraging appropriative and possessive rather than partitive and spiritual dispositions, and also of the present system of education and art of living. No doubt the repressions of vital urges and dispositions in the industrial organisation and in the city of today are the cause of social neurosthenia and loss of morale on a scale hardly met with in any previous epoch.

The Evolutionary Outlook in Consumption

Social psychology shows, in the first place, that in spite of the shifting impulses and patterns of behaviour, economic values are stabilised, organised and oriented by the group or institutional norms; value, utility, supply and demand are all the outcome of institutional pressure and group control. Such a consideration proves inadequate the understanding of the market process through a mechanical analysis of the superficial phenomenon of prices. The scale of social values influences demand and utility, and is, therefore, an indirect determinant of prices. But the bio-psychological theory of demand has hardly been utilised by economic theory. The distinctions between grades and qualities of satisfactions, between individual and social consumption, and between instrumental and final or intrinsic ends in economic behaviour are necessary to develop in the interest of a sound theory of utility and of consumption. Social psychology, in the second place, furnishes materials to economics in respect

[1] See Mukerjee: *Borderlands of Economics*, Chap. V; also Ross: *Principles of Sociology*, p. 607.

of the fulfilment, in-coordination or inhibition of man's vital urges, interests and activities in the modern industrial system. It will help towards the evaluation of alternative economic systems, which satisfy groups of impulses that will be more in accord with the needs of intelligent selection and survival of the race. Finally, it will direct the cultivation of the right kind of interests, attitudes and virtues in work, expenditure and consumption. Economics so far has not even considered the psychologist's evolutionary outlook in respect of the development of human wants and interests.

Broadly speaking, man's persistent wants (oxidation, and maintenance of animal heat, etc.) and the recurrent wants (appetites of hunger and thirst, muscular exercise, sleep, sex, etc.) together spur him to activities. Nutrition and reproduction at first became irregularly recurrent (*e.g.*, savage feasts and seasonal heat), and at last more and more regularly recurrent (*e.g.*, fixed hours of dinner, sleep, exercise, etc. and woman's monthly cycle). Evolved out of these are certain general instincts or interests, such as the love of life, need of protection, and desires for possession, storing and ownership, on the one hand, and the familial and gregarious instincts, on the other. These constitute the primary wants of self and species preservation. As man's intelligence and sociality develop, wants become distinct and various. The so-called 'laws', variety, distinction and novelty, are not 'laws' of wants but particular wants more or less of a generic or generalised character of the later stage of mental and social development.

Wants not only multiply in geometrical progression but also come to blend or integrate and compete with one another. Out of the satisfaction of the same instincts or desires as it decreases with an increase of the quantity of goods and services arises the difference between initial and marginal utility and the conception of subjective cost. Out of the competition between different kinds of wants and the alternative

uses of man's efforts arise the scale of social values and the means-end schema of relationships.

Both the utility of economic goods and services as well as the scale of their desirableness are largely governed by society, group or occupation to which the individual belongs. Thus not only wants and satisfactions but also the degree and quantity of satisfactions are mainly social in origin. Society mainly determines whether the satisfaction is to be derived from increase of the quantity of goods and services a man already possesses or from increase of new wants. When man alternately starved and feasted, mere abundance was the criterion of wealth and economic power. But the scale of values has altered with economic development, and with this the criterion of wealth and social status as well. In man's onward march, sociality has acted as a sieve of selection of both wants and efforts, and wants have been distinguished as higher and lower, the higher wants being those which could be satisfied by common as opposed to exclusively individual consumption. Again, the higher wants are also those the satisfaction of which increases personal efficiency or capacity and willingness for labour, leading to fresh efforts and activities wanted for their own sake (by "transfer of interest"). Society condemns indulgence in physical appetites of food and sex as brutal, and the elaboration of tastes of food and fashions in clothing as fastidious and sentimental. Satisfactions of the lower wants are as transitory and immediate as these are exclusive. In satisfactions of the higher wants, more instincts and interests blend with one another; the happiness is more diffuse and enduring and there is participation of the many. These do not grow stale but increase both the desire and capacity for efforts, not elicited by immediate and selfish desires.

The Enlightenment of Wants

Social progress, however, depends as much upon the

multiplication of satisfactions as upon differentiation and unique satisfaction of individual desires, due to inequality of capacities and efforts, and thus social distance is maintained between groups and individuals in the standards of consumption. Without this there would never have developed wealth in other means of satisfaction than the bare necessaries, and probably there would have been neither abundance of necessities nor leisure. The degree of urgency of man's wants, his preference of wants of the future or of collectivity to those of an immediate or exclusive character, the distribution of his efforts between relative or alternative satisfactions with limited resources and his desire for emulation display and participation,—are all governed largely by the society's evaluation, and that society fares better which condemns morbid wants and 'unproductive consumption' and differentiates between necessities and luxuries in such manner that even the conventional necessities improve the physical and mental efficiency of the people, and the luxuries have a powerful effect in stimulating the development of altruistic character. It is only when lower wants are transformed into higher, *e.g.*, sensuous into imaginative and aesthetic, or egoistic into altruistic wants, by transfer of interest and imaginative or symbolic transfiguration, that the former are multiplied and renewed, and ramify into manifold new series without being accompanied by satiety, disgust and ennui, or by that morbid or pathological phenomenon, the blind hunger for sensations and insatiate thirst for wants, which may be described as want-neurosis. The integration and enlightenment of wants involve man's constant imitation, emulation, criticism, judgment and striving. His institutional environment and his group standards and ethos offer him steady guidance in his choice of efforts and satisfactions, and indirectly in the development of his capacities and personality. Where such institutional and cultural guidance is uncertain or disordant, immediate, selfish and morbid wants get the upper hand; social

esteem comes to be associated with the discovery or conquest of crude abundance, and in the contrast between poverty and ostentatious display the threads of social relationship are snapped. A sound theory of consumption should make adequate allowances for the enlightenment of wants in social life; and the universal law of the progression of wants from sensuous to intellectual and artistic, from individual to collective, from immediate to deferred satisfactions, is a higher and general psychological law to which economics has given but little attention so far. Since the Industrial Revolution the economists have regarded a quantitative progression of wants as the dynamic force of invention and improvement of the arts of production. A theory of wants and satisfactions which was in keeping with the rising industrialism and enormous increase of production of commodities of standardised quality by large-scale industrial establishments has now spread from economics to psychology and all the other social sciences. The interpretation of human nature in terms of the primacy of the lower desires must, however, be regarded as inadequate and one-sided.

The Rôle of Culture in Rationalising and Elevating Consumption

Nor has the economic theory of consumption considered adequately the rôle of man's social and institutional environment in determining the nature of wants and satisfactions. A considerable sector of economic behaviour does not depend upon a rational consideration of alternatives or anticipation of consequences, but is dictated by a man's group, occupation or social pressure. Another sector is dictated not by immediate or concrete aims such as utility or want-satisfaction, but the immediate aims are means for the attainment of freedom or economic power, *i.e.*, are desired as symbols of social relations or social position. All this brings the theory of consumption in relation to the scheme

of meanings and values of individuals and groups, both group desire as well as individual economic motivation involving valuation or criticism. In the scheme of meanings and values and the means-end chain into which economic motivation and behaviour fit harmoniously, freedom or power is not a datum, but is itself a social value sought by both individuals and groups. Society not merely regards them as norms of behaviour, but also establishes the institutional conditions, arrangement and procedure for realising them. In the higher stages of social development wants often cannot be held as final, nor are the want-satisfactions sought for their own sake. Thus the older utility theory of consumption may perhaps throw light on the market demand for the bare necessaries of life, but cannot explain either progressive standards of consumption or norms of valuation and behaviour. Thus a sociological theory of consumption should not only distinguish between instrumental and final desires for economic goods and services, but also between legitimate and illegitimate consumption, which may be both immediately satisfying to the individual but are favourable or detrimental to his final ends or to social interests, and between legitimate and illegitimate methods of publicity and sale of producers with a pecuniary interest, which impose or deflect standards of consumption.

Culture is the guardian of high and 'judicious' wants and satisfactions of the ultimate values of life. The relation of consumption to culture and to the progressive development of man's personality should form a part of the theory of consumption. The latter includes also the social control of consumption, which involves a co-ordination of man's desires, wants and satisfactions so that he may become regardful of artistic, intellectual and ultimate values. Society through its framework of institutions, customs and traditions disciplines and co-ordinates the instincts, desires and wants of individuals in a manner that will serve it. This is the

transformation of wants into virtues. The desires for possession, storing and ownership, enlightened and socialised, become the virtues of prudence and economy. The discipline of the appetites of hunger, sleep, sex etc., becomes temperance. The elevation of curiosity becomes the virtue of wisdom. Constructiveness is rationally guided and cultivated into the appreciation of beauty. Thus are wants socialised, integrated and enlightened into virtues, increasing at the same time the worth of personality. Modern technology has created a vast amount of leisure, which has given the opportunity for the satisfaction of the artistic and intellectual wants and the cultivation of virtues. At the same time, though it has by the cheapening of goods through mass standardised production has extended the volume of choice, yet it has subordinated quality to quantity, and limited the variety and uniqueness of individual consumption. Education, voluntary effort and legislative action are necessary not only to prevent vice and fraud and degradation of tastes, but also to foster and guide the cultivation of virtues in consumption. It is culture which rescues consumption from the blind progression without improvement of the quality of satisfactions, and integrates and rationalises satisfactions into virtues. Thus economics has to depend a great deal on psychology and sociology for developing an adequate theory of consumption as an integral part of the analysis of economic motivation and behaviour.

(b) The Theory of Social Value

Economic Values as Emergent

Social psychology emphasises that individual consciousness is the outcome of the social consciousness, and that value is essentially a collective judgment. The Classical and marginal economists have measured value mainly in terms of conscious conation, and individual introspection or calculation has served as the key to this process. Economic values,

however, are also to be interpreted in terms of the power to fulfil or thwart satisfactions, one's own or other person's, often instinctive, habitual and irrational. The standard in the individual case is governed by instinctive mechanisms of behaviour as well as by activities and desires of the group, the reactions to which are seldom rational. In the case of relative satisfactions between the individual and the group, the standard of value is governed by group and institutional influences, which are often super-imposed upon and override the merely utilitarian valuation of the individual. Economic values are thus to be regarded as emergent values. Several kinds of satisfactions in which we have to include both goods and services, and which may comprise aesthetic, moral and religious satisfactions, become economic values when the fulfilment of these is limited either by the forces and forms of nature or by group conditions and standards. Thus scarcity of means and satisfactions and collectivity jointly orient economic values. Neither scarcity nor collective attraction and pressure by itself can create economic values. Economic values emerge in the exigency of the limitation of nature and social direction of the desires of individuals. From nature comes the resistance of economic goods, universal and permanent, and from society the flexibility of demand, which makes the laws of the market far different from the law of gravitation. With demand, which springs from individual instinctive reactions, ideas and feelings, which the social consciousness modifies, directs and regulates, all kinds of variables appear to make economics lose the exactness of natural science.

Psychological Examination of the Theory of Marginal Utility

The Classical and marginal economists have assumed that utility is not only a matter of individual judgment, the expression of a rational calculation of wants, but also that it

is fairly constant. The marginal utility doctrine is a psychological theory of choice, but behaviourism and Gestalt and social psychology have made this psychology out of date. Wieser's pupil Alfred Ammon has pointed out the logical limitations of the theory of marginal utility, and stressed that marginal utility is a phenomenon of individual psychology which explains many phases of individual economics but which cannot be made the basis of a sound system of political economy. Since there are just as many margins of utility as there are individuals, Wieser's doctrine is condemned from the outset as fruitless. As the theory of marginal utility is a psychological rather than an economic hypothesis, the supersession of the older hedonism, with its too static and mechanical view of economic motives, by the new developments in psychology has made it quite an obsolete framework. Man is guided in economic behaviour less by deliberate choice and more by instincts, desires and habits, which he derives not from intelligence and self-interest but from a long process of social and institutional adaptation. Utility and value cannot, therefore, be understood apart from group influences and institutional standards, which represent the warp and woof of the complex, flexible texture of economic motives. The value put on a commodity by the group or society as a whole is prior to individual utility, which is included as an element in social utility. Marginal utility is an individual phenomenon, and as such it is only a subjective estimation not yet translated into market value. And, indeed, this is recognized by Marshall when he says that in estimating market value the concept of individual utility cannot suffice. Again, most goods have a variety of uses, and the satisfactions these offer are neither uniform nor isolated. A commodity embodies not single utilities but a bundle of utilities. Hence an increase of the amount is often turned into account for securing more utility than could be derived from the smaller quantities of the same commodity. More increments

provide new opportunities of its use. Thus it is essential to make a clear distinction between increments to a supply of goods and increments to the total satisfaction. Finally, the notion of additional doses of satisfactions suggests that the value of life is recognised in terms of the quantities of the various want satisfactions, which is not acceptable.

The marginal utility theory is, therefore, guilty of exaggerating the neglective procedure in the interest of symmetry that belongs to the older atomistic and rationalistic movement in social thinking. First, it abstracts economic values from their vital and organic connection with the universe of meanings and values. It thus ignores many instincts and desires, and social values derived from these, other than economic, but which are also a part and parcel of the individual mind, and which influence economic value and the balancing of cost and utility in the price-fixing process. Secondly, it abstracts man's economic behaviour from its social and institutional environment, which, indeed, not only fashions instincts and desires into values, and stabilises these as objects of achievement but also controls and regulates the effort and achievement. The marginal utility theory accordingly reverses the processes of valuation and effort by starting and ending with an analysis of individual reactions and estimates. Thirdly, it abstracts utilities from the aggregate uses of the total available supply of a commodity and treats them as fractional, measurable quantities. Such analysis may perhaps hold good with reference to food, clothing and shelter, and to these alone. But in contemporary standards of consumption man demands even food, apparel and shelter of the socially approved kind. Above the level of bare subsistence when we come to the higher wants, we find these to be largely socialised and socially determined. Not merely man's moral and aesthetic values but also cultural and institutional standards impinge upon and integrate with them, making difficult the logical separation between eco-

nomic and social values. With the increasing satisfaction of these higher wants the intensity of enjoyment also shows a rising rather than a descending curve, and man does not usually push the satisfaction of these wants beyond the limit where the proportional enjoyment reaches its maximum. The phenomenon of decreasing utility and finally of disgust is true in the sphere of the lower instinctive satisfactions and desires, and does not hold good in the case of the higher desires. With the operation of variety, distinction and novelty, each higher want breaks up along different lines, so that in the dynamical progression of wants the cycle begins anew, and the phenomenon of ascending utility comes to persist. Social participation, sympathy, imitation and suggestion, all play a significant part in adding to the degree of want-satisfaction, when there is sharing by a like-minded group of individuals. The central importance of the theory of marginal utility will no longer hold good when it is realised that the great majority of our wants above the level of bare instinctive satisfactions are socially determined, and the satisfactions are socially approved and shared. If the law of diminishing utility becomes useless for a considerable proportion of our wants and satisfactions, the marginal utility theory becomes not merely inadequate but a misleading explanation of the price-making process, and it should yield place to the theory of social consumption and values and problems of social control and institutional guidance. With the development of collectivism and public and municipal enterprises, the problems of rate-making and price-fixation have assumed a new complexion. Both here and in the determination of 'reasonable' value in the case of labour and intangible property rights, etc., the theory of marginal utility is limited in its applicability. It is also one of the tasks of the larger economics to interpret the social values which the price-making process distorts or ignores, and to explain in this light the discrepancy between market values and the composite scheme of social values to which

economic values are means and instruments.

(c) The Theory of Social Consumption and Utility

Social psychology reveals that both the volume and intensity of satisfaction are enhanced in the group. The marginal economist's conception of social utility is arithmetical and mechanical, being only a sort of average (or aggregate) of individual utilities. Far different is the concept of social utility that social psychology furnishes, such utility comprising that part of concrete individual satisfaction which accrues over and above the reaction of the stimulus from the multiplication and intensifying effects of sharing, sympathy and suggestion in a social situation. It is, in fact, situationally emergent from collective enjoyment as such. The concept is important inasmuch as it sets the goal of consumption. As individuals share their satisfaction, such satisfactions multiply and deepen. Shared enjoyment is a feature of progressive mental adaptation to a social environment. The art of social consumption is illustrated in corroborie, feast and dance in savage society, and in modern life by national provision of free libraries, museums, art-galleries, zoological gardens, public baths, clinics, creches, hospitals, etc. Discrimination and harmonisation of desires and social and moral use of goods evoke a new happiness, a new adjustment of life and a new character both in the individual and in the society. On the other hand, ostentatious display and selfish indulgence in luxuries breed social distance and class antagonism, perpetuate class standards of consumption and mar both individual and social happiness.

(d) The Theory of Co-operative Productivity and Social Income

Production is a social process. The different factors of production are complementary goods, each necessary to

the employment and best use of the various other factors. Materials and men co-operating are transformed into something which differs from either, and which depends on the scale of co-operation or conjunction of both. Thus social psychology furnishes an organic view of productivity, which supplements that of marginal and specific productivity. Co-operative productivity represents the increase of efficiency and output, due to the particular form and scale of co-operation of the different agents of production. This has an important bearing upon the problem of distribution. Wages, rent and profit should contain, besides the share due to specific productivity of the individual factors, certain elements which they claim in virtue of their being partners in a joint concern. Thus while wages no doubt represent the labourers' recoupment for purposes of efficient subsistence, the labourers are taken in groups or classes, and the subsistence is measurable not with reference to the individual's specific productivity, but with reference to the entire productivity, including the co-operative productivity of the group as a whole, each member being regarded as equal or interchangeable member with the rest of his group or grade. The upkeep of the group interest represented by labour in the co-partnership in industry is now being recognised as a first charge, as in the provision for insurance against unemployment, sickness, accidents, old age or for workingmen's housing, education and general betterment schemes, which are concerned with the standards of living, health and education of the working class as a whole. Thus the concept of co-operative productivity paves the way for equity and justice in the distributive scheme. The surplus conjunctural income which is added to the industrial process by co-ordination, is part and result of the economic order, and has its organic inter-relations with all phases of social life. The social income in economics corresponds, therefore, to a social mind in sociology, distinct from the individual mind, and a psychical something over against the

individual, which determines his life at least in general line. This social income is situationally emergent from the general and most primal fact of associated production. It partakes of the nature of an unearned surplus to which not merely the group in the productive process, but also the social community, have a right; and, indeed, this right is being recognised in the contributions of industry to the ends of education and social welfare and security. The recognition of this right furnishes us with a real principle underlying the canons of taxation, which should base itself not on proportional ability to pay nor on proportional sacrifice, but on the extra advantages accrued from the fact of social solidarity, whatever the mode of measurement might be. Indeed, the concept of social income will prove to be of great theoretical and practical significance, if elaborated in detail. Karl Marx calls this social income "surplus value", and attributes it to one factor only, labour, and not to the co-operative process as a whole, and demands that this should go to labour.

The socio-psychological theories of economic and non-economic motivation, of demand and value, of the expression and repression of vital instincts and urges in machine industry, of the mechanisms of custom, imitation, class emulation, distance and antagonism have all been more or less adequately worked out, but these have hardly been assimilated into the substance of economics. Neither the ideals of social utility and social consumption nor those of co-operative productivity and social income are unfamiliar in the field of economics, but these await scientific elaboration in economics profiting from the social psychologist's knowledge of psycho-social mechanisms. Many specific economic problems such as population and the standard of living, labour and industrial relations, fatigue, efficiency and scientific management, the concentration and control of capital, economic equality or rivalry, servility or intimidation, have, however, enormously benefited from the wider outlook which social psychology

has introduced into their treatment. In fact, labour economics, has, of late, become primarily socio-psychological, its pecuniary and technological aspects being made subsidiary.

CHAPTER VII

THE BASIS OF SOCIAL GRADATION

The Individual in relation to the Group and the Class

The analysis now in vogue in economics of the relations of individuals to economic groups or classes, and of economic to other social forces and institutions has not proceeded much beyond the stage of metaphysics. A more adequate interpretation of social causation is necessary than the somewhat simple view of the relations of the individual to the class to which he belongs, and of economic to the non-economic forces, events and institutions in industrial society. In Marx the class and the individual make one interacting whole; he does not tarry to consider how the class and the individual are specifically related and how they operate. The Marxian economic class is as much a figment of imagination as 'the economic man' of the Classical school. A sociological abstraction *viz.*, the class was thus pitted by Marxism against the older economic abstraction, *viz.*, the economic man; both are not true to reality. Marx facilely assumes that individuals in different economic classes in society are absolutely homogeneous in interests. In actual society what binds together men in groups and classes are ethnic and social ties and moral ideals, which Marx overlooks, in his stress of common interests in the pursuit of living. Sociological realism cannot disregard the constant interplay and coordination of interests of individuals as these are oriented in group formation and re-formation in bioscopic succession. Each group or class can hold together as a result of compromise and accommodation of the various antagonistic interests of the members or the unifying force of kinship, neighbourhood and moral ideal.

Under realistic conditions groups or classes easily disintegrate when a body of individuals form a nucleus on the basis of coalescence of some segregated individual interests. Marxism proceeds to make a further unjustifiable assumption when it posits that individuals composing the proletariat in different national groups have a community of interests. Recent economic history in Europe with its tariff and restriction of the movements of capital and labour has shown how the interests of labourers and employers in different countries may be divergent and even antagonistic. The post-war nationalism and the present policy of the totalitarian states have, indeed, tended to prevent the development of any international proletarian solidarity. Especially in the countries under the Dictators a new regime of national solidarity has challenged the division of class interests which have been overshadowed by racial and political feelings and ideals. Within the political boundaries of a community, whether certain social groups rest upon and express true social functions, and fulfil the common good, or develop exclusive economic interests and come into conflict with other groups and thus form themselves into classes, depends upon a variety of social factors.

The Genesis of the Class

The cause of class formation is such specialisation or segregation of economic interests and groups in society as creates any kind of economic monopoly or privilege, that is sought to be retained through the group using economic or political power for the right of restriction or exclusion. Mere differentiation of status or rank does not constitute a class. When such differentiation originates from and is maintained by economic causes, such as the distribution of wealth and income or implements of production, we encounter the elements of class formation. Like every other kind of social ranking the class maintains a common standard of living, outlook and ideology, and seeks to retain its group

advantage by law, custom and public opinion. But since economic causes come into the fore in class distinctions the movement from one social group to another is possible for individuals either personally or in the course of generations. The class system is more flexible than the caste structure or any other social organisation based on status. But in spite of its flexibility since the class focusses common economic interests that divide, rather than cultural functions that unite persons and groups, it is more violent and explosive in its collective manifestation and behaviour.

Marx interprets the history of all society up to now as a continuous class struggle. The class according to him is an inevitable episode in man's effort to make a living and his utilisation of mechanical and technic equipment. Some societies or civilisations have, however, escaped class struggle or at least its violent disintegrating features through specialisation of groups and functions which is not entirely economic. Marx intended to analyse the objective conditions of class formation in the last chapter of the third volume of *Das Kapital* but did not fulfil his purpose. A class is different from other social groups in several features: (1) it devotes itself exclusively to economic interests or purposes, and segregates these latter from all other cultural interests and functions; (2) its economic interests are segregated from and antagonistic to those of other groups or of the community; (3) it seeks to maintain its established economic monopoly or privilege. Economic interests are exclusive in their very nature; and whenever the class bases itself on these there is a tendency for the class to live its own life apart from the rest of the community. Other types of group organisation focus interests and functions which are shared, and which integrate and interlock. Such groupings can interweave and fuse more easily and freely with one another, and contribute effectively towards social integration and solidarity. The class system based on sectional economic interests is, on the other hand, the focus

of a privileged status, which is maintained only through constant struggle with rival groups, and with the society as a whole. Different societies adopt different means for perpetuating economic advantage or monopoly such as maintenance of social superiority and distance (by differences in modes of speech, dress and manners), and use of economic power and the coercive apparatus of the state and other means of social control. The diminution of economic monopoly and social distance, and opportunity of social mobility promote amity and co-operation between the classes. Big undertakings by the state such as housing, unemployment insurance and social welfare work for the proletariat and a system of progressive taxation, which diminish inequalities in distribution of wealth, and economic security mitigate class antagonisms. Class boundaries are softened in a period of economic prosperity and completely disappear during war. On the other hand, a revolutionary situation develops, when the community, as welded by non-economic interests and functions and such general cultural attitudes as are represented by education and religion, ceases to exist, and two rival camps, the propertied and property-less classes, face each other with strong organisations as in war for an immediate decision as to who will wield the political power. Leadership and propaganda are equally important factors in the transformation of a class into a revolutionary party aiming at the conquest of power. Classes accordingly differ in their composition, and exhibit different attitudes and kinds of behavoiur under different social situations. Without reference to the sociological whole situation the notion of the class becomes abstract and metaphysical, as in the Aristotelian treatment, and this accounts in no small measure for the emotionally toned discussions between liberals and Marxists in the field of economics.

Neither the lines of division of labour nor the sources of income, nor the so-called factors of production accordingly form the definitive basis of differentiation of society into anta-

gonistic classes. Groups form and stabilise, rise and decline in economic ranking and power, and become stereotyped into estates and castes or into economic classes as the result of an interplay of various social, economic and cultural interests. An upward economic movement, as instanced by the transformation of peasants into small landholders and traders and then into an intermediate class of petty bourgeoisie, or a downward movement, such as that of the peasants and artisans into the landless farm labourers and agricultural-cum-industrial workers and then into the so-called *déclassé* groups, as represented by beggars, criminals and vagabonds, softens or sharpens class feelings in a given society. The class, therefore, has to be understood with reference to the dynamics of economic forces as well as to institutionalisation. The class struggle is not at all inherent in society. Not merely economic but more frequently cultural and political factors and institutions have led to the emergence of objective conditions of opposition of interests of rival groups, but it is the general cultural and economic conditions connected with the entire social history of a people which determine the crystallisation of such groups into classes in antagonism and conflict with each. Fundamentally, such objective conditions of group conflict in the mechanical-technic field are represented by individuals or groups as producers and consumers, or as buyers and sellers of goods and services entering into a combination or monopoly so as to thwart the operations bringing about the balancing of labour and awards, prices and costs in the context of the market.[1] A closed group or a monopoly, establishing more or less control of the conditions and sources of supply and demand, may be the fluctuating incidence of a particular economic situation. It may also be a more or less permanent feature of the economic system, when, for instance, the system of technology is such

[1] See Robbins: *The Economic Basis of Class Conflict*, pp. 5-14.

that the implements of large-scale production can only be owned and managed by a small directive group holding a monopolistic position with reference to the employment of labour, or the distribution of national income is such as to establish great disparity of economic opportunity. Or, again, the economic genesis of group conflict may lie in social history and institutional arrangements which may create positions of privilege and impede social mobility or an upward or downward economic movement of individuals and groups.

Guilds in Medieval Europe and in India

In medieval Europe the guilds of craftsmen and merchants obtained special powers and privileges or grants of authority from kings, nobles and municipalities. Within the craft guilds the master artisans came into conflict with "the brotherhoods of wage earners" and the increasing class of journeymen, who were excluded from the guild's rights and privileges. Further, the craft guilds came into conflict also with the merchant guilds, and the mercantile oligarchy no sooner developed than it found itself face to face with a demos of artisans organised in craft guilds whose long struggle was like the Roman struggle between the particians and the plebeians. Guilds in medieval India had a different history. Here ethnic, economic and cultural factors intermingled in the same organisation. The inter-lacing of caste and guild prevented the development of the close oligarchy which is characteristic of the Western guild organisation. For the caste included in its fold the propertied and the property-less, merchants, artisans, wage-earners and apprentices. In the Indian guilds the wage-earning classes were never excluded, and, indeed, their admission to full membership discouraged the development of that distinction between employing masters and employed wage-earners, which was at the roots of mutual jealousy, conflict and disintegration of the Western

guilds. In the East generally the guild regulations were not exacting, prohibitions and penalties were not harsh and frequent, nor were they imbued with any spirit of feudal or commercial exclusiveness. On the other hand, they helped to confer dignity on the artisans and workmen. The wage-earner was given a voice in the government of the city or ward to which he belonged. He could attend the meetings which discussed questions of temple management and the maintenance of schools, alms-houses, and other public institutions. It was thus due to such guilds that in most of the cities in India the triumph of functional democracy was confirmed, and there were many examples of resistance organised by the merchant and artisan classes against the tyranny of kings or nobles.

Resolution of Class Consciousness

It is the group organisation, and the entire institutional framework on which it is based, which determine whether the group interests subserve social ends and the guild or caste bias may lift into a broader mentality, or whether the group interests crystallise themselves into exclusive class interests and feelings. The transformation of the latter into class consciousness in its turn depends on various social-psychological factors such as general cultural attitude, education, leadership and propaganda. A class cannot be understood or interpreted without reference not merely to the economic forces but also to the entire network of social relationships. Since the class, the guild or the occupation group show such different features in different economic systems and historical epochs, it is necessary to premise a theory of institutions as the background of the economic forces of supply and demand, prices and costs and the distributive process. The distribution of political power and social privileges, law, custom, and cultural attitudes, affecting physical and social mobility as well as education and training of the elite

and the masses, all enter into the class situation. Entrenched by legal privilege, political power and religious tradition, closed estates and castes or more flexible groups maintain social distance from the rest of the community and struggle for vested interests of the individuals. As conflicts between different sectional interests develop, the upper or directive groups strive for social harmony, or instil into the minds of the subservient groups beliefs and faiths which impede the development of class consciousness. It is the strength of these beliefs and faiths, and the traditions of cooperation between groups which determine the rigidity of class stratification, or the flexibility of an upward social and economic movement, and consequent group integration and harmony. In all societies some kind of social ranking is based on wealth, and it is but natural that the wealthy form an economic group, whatever be the source of income. But it is the actual social and economic situation which determines whether the various sections of the wealthier economic groups struggle or cooperate with one another, and this would also apply to the professions, the artisan groups or the working class. There is discernible in most societies a sharp conflict of economic interests between the laity and the professional class, between skilled and unskilled, and male and female, labour. With education and mobility inequalities of economic opportunity for the different groups are reduced, and their conflicts resolved in some measure. Absence of mobility, restriction of employment for certain groups and creation of privilege and monopoly sharpen difference of economic interests between groups, and transform them into classes, which seek to perpetuate economic monopoly by a right of social exclusion.

In India to the cultural differentiation between the conquerors and the conquered were added in the past difference of race and standards of living between the Aryans and the Munda-Dravidian peoples; while caste which owes its origin

largely to conquest and racial admixture not only stereotyped privilege and social distance but also confined certain groups of producers to particular hereditary occupations. There were thus present all the seeds of economic conflict between different groups in society. But the establishment and spread of village communities, with their equalising measures in agriculture and irrigation, brought together different castes and communities in close functional inter-dependence. Guilds which often unite artisans of different castes and the village communities, which encourage a good deal of co-operation in agriculture, community services, festivals and recreations, prevent the crystallisation of class feelings and interests. Group organisation in India has taken a form of functionalism and regionalism, and a class cleavage which is not in its origin economic. Groups belonging to the same neighbourhood, groups belonging to a particular social stratum, groups united by a religion or a community of pursuit or interest form what is virtually an autonomous unit, subdivided it may be and even mutually encroaching. There is an interlocking and overlapping of different units and their interests; while an effective local group organisation and traditions of voluntary co-operation of various kinds of neighbourhood and functional groups, which unite in a loose federalism, create a united social purpose, a genuine public opinion far different from the class consciousness of the propertied and property-less groups in Western industrial society. The code of social ethics has stressed social obligations rather than economic rights among the propertied classes. In the agricultural East differences of property-holding have been narrow; while the time-honoured charities and the devotion of the priesthood to the cause of education have mitigated inequality of economic opportunity. Monachism has encouraged an equable distribution of wealth, and the consecration of the highest caste to service for the property-less prevented the sharpening of class

feeling. Religion and the notions of *Karma* and transmigration engender a belief in fatalism, which reconciles individuals and groups to low economic status or loss of economic and social opportunities. Religion and culture also have brought together the propertied and the property-less into the same sect, and initiated social division on extra-economic lines. New social alignments have been the result not merely of economic, but also of religious and cultural factors. It is inevitable that cultural interests dominate over economic in many societies where the groups may unite not on the basis of community of occupation or similarity of function in the productive process, but on the basis of similarity of mode of living, religion and culture.

The Class-conscious, Unfreethinking Individual, a Caricature

Marx conceived the class as a necessary division of society, connected with a particular method of economy and possessing certain traits, which moulds the individual psychology and directs individual behaviour to an inevitable destiny. Thus the individual destiny, through the subordination of the self-assertiveness of the individual, coincides with the destiny of an economic class, which works out the logical principle of its formation to its limit, and as it does so prepares its own death. It is the division of labour and the organic inter-dependence of the individuals within society which differentiate economic interests, and manners of living and thinking and produce different kinds of individuals. The Russian psychologist, Kornilov, thus explains the status and significance of class psychology.[1] From the Marxian standpoint the individual is a combination and product of definite social relations and, first of all, of those connected with production, that is to say, class relations. Thus accord-

[1] *Psychologies of 1930*, edited by Murcheson.

ing to Marxism, the behaviour of man must bear the stamp of the class to which he belongs. The bourgeoisie, the proletariat of towns and villages and the intelligentsia possess their own specific constitutional features and distinctions. This is, of course, a one-sided analysis. Man's instincts, emotions and ideas, his habits and manners of living are both specific as well as socially conditioned. These go back to his organic and social heredity. And though the behaviour of the group or the class, its habits, sentiments and moral judgments find their echo in the individual, it is in the individual mind that the social and moral suggestion is fashioned as the individual's own behaviour. Each individual's psycho-motor equipment reacts differently to the social situation. Thus for one person the group-leader may be a perceived physical object, and for another it may be a mere memory-image or an imagined reality, and for a third it may be a mere concept. Thus different individuals would show different kinds of reactions to the group and to its leader. On such reactions, determined as these are by factors peculiar to the individual, the tenor of group life largely depends. As a matter of fact the variety of mental patterns, which is the outcome of particular correlations of specific mental characteristics of individuals which are never constant, accounts for the striking diversity of groups and for social change in the history of civilisation.[1] In Marxian psychology there is a tendency to make too little not only of irreducible individual differences in the instinctive life but of man's rational and critical faculty, and to stress collective behaviour in the instinctive level.

The Blending of Economic and Non-economic Interests

In the Marxist scheme psychology is regarded as a social science rather than a branch of natural science, and accord-

[1] Mukerjee and Sen Gupta: *Introduction to Social Psychology*, pp. 90-91.

ingly the view of individual behaviour as conditioned by a definite, social, productive group has also warped the outlook in Marxist sociology. Sidney Hook observes, "The activity of a class and the consequences of that activity are not *necessarily* deducible from the motives of individuals composing that class, nor vice versa. It follows that from the point of view of a history interested in *class* struggles, the activity of any particular individual is a chance event (not, however, from the point of view of a biologist or a psychologist)". Marxist sociology is right in its recognition of the significance of economic interests bringing together individuals on the basis of daily experience and activity into separate, antagonistic economic classes. It does not shut its eyes towards economic needs and the actualities of conflicts in society. It is, however, strikingly inadequate in its disregard of other human needs and interests, besides the economic, centred round such universal institutions as the family, the kinship group, school, church and culture. As a matter of fact it pictures the individual as a caricature who cannot achieve anything without the support of the interests of the class, and with whom all other individuals are means not ends. "The flower of Mill's philosophy", observes Hocking, "is the economic gentleman, independent and freethinking; the flower of Marx's philosophy is the economic workman, dependent and unfreethinking. Both as pictures of the complete man are human failures." Nor does the method of economy completely govern man's inter-dependence and the principle of group differentiation. All kinds of interests, not merely the economic, stimulate group formation and stratification. Different individuals react differently to like cultural stimuli, and group adjustments vary. On the other hand, different individuals and groups receive at each moment or situation different sets of cultural stimuli. The laws of facilitation, integration and inhibition of one set of motives like the economic by others, such as the cultural or

religious, are at work. General attitudes and interests develop and vary among individuals and groups and these govern the trend of group consciousness and behaviour. Economic and non-economic motives, indeed, blend and integrate, and the behaviour of the individual or group often cannot be labelled as economic in a given situation. In an epoch or a country, where population does not press on the means of subsistence, economic motives become less persistent and pervasive. Group behaviour like individual reactions suit the immediate needs of adaptation; where the dominance of non-economic motives persists, the trend of behaviour and cultural relations follows non-economic channels, and the individual's consciousness and behaviour are not controlled by the economic interests and standards which the class expresses and focalises.

James Mill differentiates a class by "the community of interest", in other words, something or things, to be obtained, secured, or augmented, by the common endeavours of the class, and operating as a cause of pleasure to all of them. Do not the landlords, then, constitute a class, since they are distinguished by the differential rent which is allotted to them by the operation of the laws of nature? No, since James Mill adds immediately afterwards that 'there is no Love of class but in a Privileged Order', and the privileges which constitute a class and which consist of 'Wealth, Power, Dignity, one, or all, conferred by legislative act', are 'not the result of natural acquisition, but of a sort of force, or compulsion, put upon other people'. According to James Mill, therefore, there is no longer any social class which enjoys private in opposition to the general interest, except through the fault of some government intervention, which changes the natural identity of interests.

Moral Values Not Rooted in Economic Considerations

Not merely the thoughts and actions of individuals, but

the ideas and behaviour of groups are thus controlled by the wider mental and physical contents. The behaviour of the group cannot be considered as a discrete event; it looks back to past history, experience and tradition, which fuse together a bundle of man's natural inclinations, interests and desires, not merely the economic. Man divides his allegiance between various groups which become agencies and channels for the appropriation of divergent values in the social environment. Not merely the multiplicity of individual ends, but the variegation of group interests and values are ignored by economic psychology. Individuals are different in their ideas and aspirations, and economic interests do not represent the only key to the social process. They deliberate rationally neither over costs and outlays of expenditures nor over social and moral dealings. These are often determined not by the laws of the market but by those flexible social realities called the family, church, culture or prevalent standards of living and morality. The routine of life which represents the even tenor of group adjustment determines the current flow of goods and services, and the habitual intercourse of ideas and beliefs. Man adjusts himself to this routine unconsciously, and in this process of adjustment, not only wealth and happiness, but also his moral values, religious beliefs and metaphysical ideas emerge. Marxism gives a wrong perspective of social life when it regards man's abstract ideas and moral values, which have a history of their own, as originating from and being fashioned only by economic motives and interests. The development of man's faith in the ultimate values or of abstract ideas of morality, law and rights cannot be traced to definite corresponding epochs or phases of man's class relations and consciousness. Man through the ages has aspired after the ultimate values, and striven to objectify these in the social order and economic relations. These exhibit development on which economic facts and conditions throw no light. As

a matter of fact, man's highest creations in the field of art and literature, his profound religious experiences and speculations in metaphysics, ethics and law represent his mastery over nature and the economic environment. These show considerable resemblances in different countries and peoples, having little to indicate particular economic relations or modes of living of his environment or epoch. And these have proved stronger social binders than the identity of economic interests in social classes.

The Class versus the Community

Man's economic like other interests are a part of his mental make-up; these become a part and parcel of his behaviour, which, however, is fashioned in the mind and not in the external world. If there be a single key to the whole process, it is not a set of data like the economic nor even their combination; but it is the mind which selects, refashions and acts on these. And the human mind operates in a *milieu* in which collective traditions and judgments other than economic are also prime-movers. Economic motives and interests acting in isolation form a class—a sociological abstraction—rather than a communal or neighbourhood group. The communal or neighbourhood group is a type of collectivity bound by various natural ties of affections, sympathies and social habits: it illustrates what Tonnies calls "Gemeinschaft" or community. The class is a type of collectivity integrated by a fractionalised set of interests and rationally formulated purposes. It illustrates what Tonnies calls "Gesellschaft" or association, and is bound together only by rational will and abstract concepts. The communal or neighbourhood group represents a division of functions and associations which result from a similarity of modes of living, and it comprehends, therefore, the entire social life of the region. Accordingly, it satisfies the concrete needs of the whole of man's nature in an outpouring of interests

in a variety of social efforts and aspirations; not as does the class, in one line, governed by only one set of tendencies. A trade union has its class dogma, its benefit funds, and its economic regulations. The caste or the occupational or functional group, being based on a wider valuation of human instincts, will have, besides these, its festivals and its ceremonies, perhaps its own religion and artistic equipment, so that the whole man, and not a mere fragment of his personality, can find ample opportunity for self-expression. It is true that existing associations of labour and capital are concerned with political, educational, and artistic activities; but these are pursued essentially as means to the satisfaction of economic ends. The communal and regional group, built up of homes and families, neighbourhoods and local associations, rather than the widespread association bound together by a single set of instincts, is the appropriate field for the integration of diverse instincts and values. In the intimacies of personal and social relationships, many of the vital instincts and dispositions of man, which are repressed in the larger social order, receive adequate satisfaction. Loyalties, which otherwise become thin and abstract, thrive and are replenished in strength by attachment to the region. Group life which takes the forms of regionalism and functionalism renders easier an integration of ideas, emotions, and modes of behaviour, and the pent-up complexes which now surge for expression in open rebellion can be redirected to new fruitful outlets.

We all know that the class which offers ideal fulfilment to one segregated aspect of instinctive life now exhibits great instability. The background of economic groups in modern industrial society is a pathological social situation. Failing to fulfil immediate economic and social needs it is oriented principally to psychic representation of what would fulfil the repressed desires. This representation, according to the psycho-analyst, would not be a direct picture of the object

desired. Often it would be disguised in various ways. Thus it often may be emotional, a mere hatred of the system that denies a group of individuals the needs of their nature. It may envisage an ideal state where there is full satisfaction, a class-less society and an authority-less state where the present oppositions of economic interests and between coercion and moral liberty cease. It may assume a motor character directing the energies toward the destruction of the present social order. Grounded as it is on repression, a class would develop among its units an exuberance of emotion, which naturally would be projected by them primarily to the social end and object, and secondarily to the group. Thus arise class feelings and class *mores* and manners, which, when aggressive are transformed into class exclusiveness. To be sure, the dominance of the mere economic interests at the expense of the impulses of familial life, construction, leadership, etc. is at the root of modern economic unrest. As the interest-group, like the class, increases in its range, and holds together individuals by placing before them a distant fulfilment, e.g., an abstract idea of economic power, the antagonism within the society becomes pronounced. There emerge abstract ideas and secondary satisfaction values which express themselves in conflicting policies and group ideals.

The Exaggerated Emphasis of the Rôle of Intellect in Class Theory

Communism tends to disregard the range and complexity of the individual's motives and behaviour. Marx was primarily interested in the behaviour of groups or classes and in the individual only in so far as he is a member of the group or class (Capital I, 15). But to argue that the behaviour of the group or class is not deducible from the motives and interests of individuals composing that class either

smacks too much of crowd or mob psychology,[1] or exaggerates the supremacy of the rational, pecuniary drive of the class. If in certain social and economic situations, class activity overshadows individual behaviour and makes itself felt in the ultimate upshot of the activity of the aggregate, it is because other groups cannot canalise the motives of the individuals, proving in the context of the environment less vital modes of association. Each of man's groups fulfils or represents a part of his nature; the complex growth of his personality depends upon the interaction of the various interests and loyalties centred round each group. The economic class is based on the hypostasis of man's economic interests and pursuit; it represents and focalises only fractionalised responses, habits and attitudes. Modern economics, however, in treating of the class as dominating the social trend makes a similar mistake as that of the older German political philosophy or the modern totalitarian theory which have emphasised the glory and majesty of the State. Both theories are metaphysical and based on an unreal segmentation of the human nature. Both over-estimate the role of the intellect and disregard the influence of social habits and traditions and the irrational and moral values. Several schools of economic and social thought are even addicted to forecasting with certainty the future from the rôle of rational will in the present social crisis. But as Von Schmid well observes: "Society is not an intellectual game invented for the purpose of dealing with situations. Reason and will are forces which are active in society, but they are not at the root of its foundation".[2] Man's social progress is the outcome of the drive not of the rational will but of collective feelings, habits and traditions which are often irrational. The class is a mechanism governed by the rational will,

[1] Sidney Hook : *Hegel and Marx*, p. 39.

[2] J. J. Von Schmid: *The Significance of Sociology*, *The Sociological Review* 1937.

and it lacks vitality in so far as it has divorced itself from several basic natural needs and emotions expressed in the morals and customs of every social order. Its aggressive and centralised tendencies also tend to repress man's familiar and other natural groupings and his primary instincts of mastery and self-assertion. A study of man's group life and relations as understood by social psychology now warns us that the Great Society or the industrial class has thwarted a harmonious development of natural groupings and integration of the mental life. And the solution now proposed is the formation of natural groups and associations which would break up the unity of political sovereignty, on the one hand, and the dictatorship produced by organised economics on the other. Thus it is not through the instrumentality of ideas but through that of group moral relations and feelings that the new social order can be achieved.

Mutilation of Personality in the Class System

The number of vital groups and modes of association in which man can express his personality is largely determined by the particular social milieu in which he is born and reared. It is the aim of the class system to institutionalise men on as many items of behaviour as possible by focussing before their fore-consciousness the economic interest. The citizen here becomes identified with the industrial worker, and the ideal is a nation of class-conscious, discontented and dependent units with no personality. Class consciousness now pervades every stratum of society: it becomes inter-laced with political, religious and cultural interests; it conditions the development of certain personality characteristics which distinguish Western capitalistic industrial society. The rigidity of economic classes and the conflict between social, political, and economic institutions are factors in personality disintegration and repression, which lie at the root of the crisis in modern culture. The industrial system also complicates the problem

of individual misfits by encouraging an ever-increasing division of labour, so that the occupation of most individuals is limited to a narrow field of behaviour. Mechanical drudgery and a narrow specialisation cannot provide scope for individual self-expression. The individual centres his interests in his speciality, and fails to express his personality in many social situations, showing great lack of adaptability. On the other hand, the complexity of modern culture in which many institutionalised forms have interposed between man and the satisfaction of his primary needs, demands a plasticity of responses. The opportunities for counteracting repressions can only come through a development of personality harmoniously in relation to man's work and his economic and social contacts, a socialisation and spiritual enrichment of life and a widening of the scope of creative activity in every class. It is only in a culture where the modes of political and group action, art, religion and industry are harmoniously related that the opportunities for personality integration present themselves. The relationships existing between the various classes of modern industrial society deny personality expression. In Marxian economics we have a vivid recognition of the degradation of the labourer to "the level of an appendage of a machine" and his "mutilation into the fragment" of a personality in the system of capitalistic machine-production. Marx in his stress of the social bond which the identity of economic interests represents neglects the essential equality and freedom of the individual which liberal economics prized. It is true that the equality and liberty were fictions in the actualities of the capitalistic economy, but the Marxian social theory neglects to bring human beings to an adequate consciousness of their worth as individuals in its concentration towards bringing them to a class consciousness arising from concrete needs. But Marx like his liberal predecessors starts and ends with an atomistic individualism. There is no recognition in Marxian sociology of

the mutual participation of ends of individuals and the state in a common social experience. Thus though Marx speaks of the capitalistic system as doomed to fall, first, because of the wholesale subjugation of the proletariat as a class which cannot persist in *history* made up of class struggles, and, secondly, because of the *ethical* injustice involved in a process by which the labourer is degraded, "his life-time transformed into working-time and he is estranged from the intellectual potentialities of the labour process;" yet in his socialised state that degradation may become universal. In the forcibly collectivised life of the communist state, the unequal mutilation under capitalistic economy is replaced by wholesale mutilation.

The Progress of Freedom in Dialectic Rationalism

It is rather striking that Marxism has made little use in its theory of the state of the possibilities inherent in its dialectic of a rational development of the 19th century liberal idea of the liberty of the individual. The dialectic has not been productive in the Marxian theory of the state but only in its conception of class consciousness which is not a spontaneous reaction on the part of individuals but is achieved by means of mass psychology, political leadership and rational education.[1] According to dialectic rationalism the behaviour of the individual corresponds neither to the independence of the liberal ideal nor to the servility of an authoritarian collectivism. Applied to the state, dialectic rationalism might possibly show a way to a synthesis between the social and moral needs. The present social order demands a behaviour in which freedom and subservience, liberty and leadership must be combined in a higher synthesis. The new social and economic conditions demand revision of the 19th century ethical standard of liberty whose usefulness has now been

[1] Werner Falk: The Sociological Interpretation of Political Ideas, *The Sociological Review*, July 1934.

outgrown. On the other hand, the dictatorship of the proletariat or the *elite* demanded by organised economics is a caricature of the organic and spontaneous unity and strength of the state. Individual life and liberty have claims which do not spring from social and institutional relations or from the economic situation, and these have to be preserved and maintained in the social order for the sake both of the moral needs of the personality and of the exuberant variety of cultural interests that organised life must adequately embody and fulfil for the individual. Neither unconditional coercion by the state on the grounds of social utility or purpose nor unconditional freedom, based on a conception of an individual less complete than the former has in view, realises the present ethical requirement. Such requirement can be met only by the adequate recognition of spheres of values which are outside both the individual and the community, and from which are derived both the unassailable and inalienable liberty of the individual, on the one hand, and the spiritual mission or destiny of the state, on the other.

CHAPTER VIII

THE THEORY OF SOCIAL INSTITUTIONS

A Theory of Institutions Distinguishes the Concrete Gestalt of an Economy

The task of sociological economics, when it deals with economic-technological relationships, would be to recast the outline of the social trend and process with which the economic order has experienced an evolutionary transformation during the last century. This it can best undertake by developing a theory of economic institutions which will be far different from the Classical pattern, and which will offer what Mill calls the "middle principles of sociology." It is these which will represent the theoretical framework within which the "laws" of exchange and distribution or the sequence of trade cycles will operate.

The theory of institutions—a social-psychological study—is an analysis of social processes and social structure. It explains why society is moulded in a certain pattern. It is a theory of the way in which the patterns of economic activity and relations are organised. It examines the origin and basis of social gradation, such as the class, caste or communal group and the organisation of the state and other intermediary bodies like the guild and the village community, which in different civilisations serve as organs of social persuasion, control and guidance. It determines the relations between institutions other than the state, and between institutions and individuals. It enters into an examination of the legal systems which arise with the institutions with which they are connected. For, as the French jurist Renard stresses, it is not the State which creates the law, nor the law which creates

the State; they arise simultaneously by the act of foundation, and both go on developing together working out the idea which is behind the State. Each of the legal and economic systems is a part of the general system of institutions which are integrated with one another into an organic whole. The theory of institutions also analyses what the relations between man and institutions should be, and what happens when the idea of one institution, such as the state conflicts with the idea of another institution, such as the class. Man's loyalties and allegiances are manifold. The theory of institutions, therefore, enters into an examination of man's conflict of rights, duties and virtues, of the *ethos* of the people that largely determines the character of its group values, institutional preferences and individual outlook. The theory of institutions envisages both the structure and trend of economy as a whole not merely abstracted relations and partial phases, not mere unproved premises and supposed necessities.

It underlies the comparative study of divergent economic systems. Each economic system is related to a given set of institutions, to a peculiar configuration of culture and *ethos* of the people. These, as we have seen, have their roots in its ecological background and its technic-mechanical acquisitions, which partly select social institutions and culture. The institutional approach is a necessary approach to any economic theory. Without a theory of institutions, economists are prone to assume a single framework of laws and customs within which individuals and groups "rationally" carry on their economic activity. This largely prevents them from localising the strains and stresses in the present economic system. The theory of institutions that recognises multiple economic systems and types focusses the attention to the conditions of economic disequilibrium within the framework of law and custom and institutional distribution of freedom and power, in the first place, and secondly, to the disequilibrium that calls for a new scheme of law and re-

definition of property, freedom and contract. Mill held that the economic system rests on the recognition by individuals of the sanctity of property and the sanctity of contract, the former implying the latter, private property and freedom of contract representing the framework necessary for orderly exchange and distribution processes. There is nothing definitive, however, about a theory of institutions. The community in its adjustment to scarce resources builds up changing institutional norms and scheme of personal and property rights, regulating its wealth and power relations in the interest of order and progress, and as it refashions institutions it sees to it that the legal, economic and political institutions fit one another into a harmonious whole. The theory of institutions is an indispensable general notion enabling the economist to distinguish and describe the concrete *gestalt* of an economy in a given social-historical situation.

It Analyses the Functional Relations between Economic and other Norms and Trends

Within the setting of the theory of institutions, which will remove the present hiatus between an area of economic law and a field constructed of elements totally 'irrational', 'adventitious', or 'random', to quote Robbins, the economist will seek his precision and exactness. Economic forces are subject to different causal laws from the other institutional influences and social forces, i.e., follow these with rigorous necessity once the conditions are limited to the quest of certain logical ends with scarce means within a given economic structure. Such causal laws are, however, by no means "natural" and "inexorable", as the Classical economist tended to believe, for their working is conditioned by the human social arrangements and forces as represented by the particular texture of institutions, customs and traditions. Not merely wants and satisfactions, but also mobility, enterprise and thrift do not follow "natural" economic laws. These

are as much the outcome of accumulated culture, and extensive and enduring institutions, customs and habits of life as the machines, tools, techniques and abilities of the new industrial age are themselves socially conditioned and transmitted. Against the dogmas of "natural economy" in which the individual in his isolation is endowed with full-fledged wants and applies himself to the task of want satisfaction with the help of his ready-made choice and prudent calculation, and of the "state of nature" in which the individual possesses full political rights, antecedent to the evolution of society, sociology stresses the conditioning, modifying and governing influence of accumulated institutions, culture and *Geist* of society. Economic laws and processes, when they are left to work themselves out, produce one result on the merely technological level. But on the same level, modified and governed by group and institutional standards and evaluations, these have quite different trends and consequences. The theory of institutions shows the way towards the analysis of interaction and inter-dependence of the system of associated relations, norms and evaluations and their consequences.

Present Inadequacy of the 19th Century Pattern of Economic Institutions

No doubt the pattern of economic institutions of the nineteenth century Western European capitalism was peculiarly associated with social-historical conditions. The industrial society of the nineteenth century Europe evolved a system of division of labour, money and distribution, which have made men inter-dependent, and of private property and competition, which have resulted in a partial adjustment of money costs and prices and of individual and social interests. But due to various factors of technology and organisation, such as specialisation of labour, immobility of the agents of production and the incessant substitution of labour and capital goods, owner-

ship and enterprise are now concentrated in the hands of the directive classes owning and holding wealth, various forms of monopoly and imperfect competition have emerged, and the freedom and bargaining capacity of labour have been curtailed. As a result of all these, the economic process described by "economic laws" establishes a disparity between money costs and prices, excludes a considerable section of the community from the specifically economic values, not to speak of human values or ends produced in human living of which the economic values are means. As long as the system of production and the legal order are such that the control is in the hands of a small directive class, which seeks and finds its own profits from the sale of any kind of goods and services, irrespective of their consumption values, the standpoint of the producer and not of the user of services and goods will rule in industry, and human values will not be able to control economic values. The remarkable development of the technologies of industry during the last few decades in particular, has been in striking contrast with the slow change of institutions, especially of property and privileged pecuniary status, which results in an increasing disparity between the profit and power accruing to the entrepreneur class and their actual work and service. Industrialised society thus fails to secure the "harmony" which was the goal of the eighteenth century optimistic philosophy of Europe. Even among modern economists the notion that the play of "natural" or spontaneous tendencies which operate in "competitive" society brings about a large or maximum social dividend is, however, still very much alive. Thus the deprivation of masses of people from the bare economic values and encroachment of economic against ideal values continue

The Economic System Works Within a Universe of Meanings and Values

The theory of institutions stresses that the end of economic behaviour is a means to something else which involves social judgment as expressed in traditions and institutions. In fact the economic process is not a "natural" occurrence or condition in vacuo; but has reference to a changing system of meanings and values in the group. Every economic process changes the configuration of meanings and values, and its complete description must, therefore, include social purpose and institutional control and guidance. Outside economic behaviour a person comes across a considerable number of norms and hence a considerable number of possible maxima of utility. The individual's choice of the norm itself depends upon his instinctive dispositions, habits and social conditioning. Pareto fails to recognise this as he defines economic activity as typical of logical behaviour. As a matter of fact individual freedom, competition, property, contract and connected legal relations,—all are not merely data, but are social in origin and content, and have a social value, which has to be reviewed in the present situation. When individuals seek wealth or economic power the seeking is judged by the institutional norms or standards of wealth or economic power. In other words, wealth, like the conditions of its acquisition viz., freedom and competition, must be compatible with the integrated system of social and moral values which institutions maintain and protect. No methods of economic analysis can be adequate which do not judge economic events or acts from a dual standpoint, first, from the special goal, which is internal to the economic system and, secondly, from the common system of goals sought by the net-work of human relations and institutions. Social norms and institutions become economic data when these impinge upon the economic process through the force of law, custom, convention or public opinion. Their treatment as data not only introduces a

flexibility in economic analysis, which is eschewed when economic forces are considered as working within a fixed legal and institutional framework, but also directs attention to the dynamic character of the economic relations and of the institutions and norms that maintain and regulate them. There is a transposability of economic norms and data, which economics should recognise in order that it can do justice to the analysis of both institutional misfits and imperfect exchange equilibria, and the search for new norms, meanings and economic relations.

The Segregation of Economic Values

With the development of technology in the changing economic world, man's economic goods are mostly not "final" or "primary" goods, but are striven for to attain freedom or economic power. Such ends are forms of social relationship and not "goods". It was Simmel who has pointed out in his Philosophy of Money the privileged situation, which money now holds in virtue of the very indeterminateness of the satisfactions it can procure and the possibility of choosing between them. In a sense, money is the unrivalled tool, the pure means, and this is precisely why it passes to the foreground of desire and concentrating on itself the multitude of efforts, sets itself up as a dominating end. Moreover, this sort of promotion of economic values is only a particular case of a more general law, the law of transfer which governs the whole life of man's feelings.[1] In the midst of capitalistic society, peasant communities have persisted in subsistence farming and barter economy, which have conserved status and discouraged rationalisation of economic relations. With the greater use of money and expansion of market economy contractual relations have invaded even agricultural regions and communities, and with this the ways in

[1] See Bougle: *Evolution of Values*, p. 77.

which the non-economic motives, interests and standards blend with the economic motives have undergone transformation. While commercial agriculture has established the supremacy of economic values even in the relations of individuals to one another and to the family and the rural community, capitalism in the later stages of industrial evolution has restricted the individual's freedom and satisfactions and even his rights to and capacity for labour. Thus money is desired for the sake of freedom and economic power and not merely for "decent subsistence."

The world of economic values, entrenched by a whole *ensemble* of social and legal institutions and traditions belonging to the pre-industrial age, is now constituted apart by the science of economics. Meanwhile psychology has developed an effective technique of investigation and validation of social habits and the behaviour and mental patterns of individuals. The social sciences accordingly claim to control economic relationships and direct the social effects of machine technology in the interests of a shared abundant life. Thus the orthodox notion of economic values has proved totally inadequate like the antiquated ideal of *laissez-faire*, natural liberty or sanctity of property, and is now sought to be revised in terms of wider social purposes or norms.

The Theory of Institutions Furnishes the Logic of Social Evaluation

The theory of institutions offers a logic of valuation which will distinguish between apparent and real advantage, and between means and ends, and discover whether the norms that individuals adopt in their economic behaviour in relation to the ends they pursue are inconsistent or can be integrated into a systematic and ordered whole. The ultimate ends of individuals in a society form more or less an integrated system, which to be understood must be taken as a whole. Political, economic and cultural values fuse themselves into a

single complex whole in the individual psyche, determining man's concrete events and acts in the social *milieu*. Thus while for purposes of analysis of the actions of an individual his scale of valuations may be taken in abstraction from those of his fellows, it is no more legitimate to conceive the actions of a whole society as a mere resultant of an indefinite plurality of individual systems of ends in given conditions than it is to conceive individual action as the resultant of a similar plurality of "conflicting psychological pulls."[1]

The theory of institutions emphasises that throughout the course of economic history, social norms have always pressed on specifically economic values. Economic relations whether in the village communities in the East or the capitalistic industrial civilisations in the West are all controlled by the enveloping institutional standards and arrangements. Without the theory of institutions economic history becomes a jumble of unconnected data. It is the notion of a specific, regional or historic economic system, based on the theory of institutions, which supplies the thread that holds together beads of scattered economic data. Economic history has given us a variety of historic structures or economic systems such as the history of village communities, the history of the Renaissance, the history of modern capitalism and the short history of Russian collectivism, none of which is limited to regional boundaries. But in each epoch the basic institutions of property and competition, labour and freedom, which condition all economic qualities and events, and regulate the mechanism of prices and costs, have been different. Thus the data of price and cost have to be interpreted differently in relation to a specific economic system and the underlying theory of institutions and we understand the significance of Sombart's dictum that "economics without theory is blind, without history is empty." Sombart further observes: "It

[1] See Parsons criticising Robbins in the *Quarterly Journal of Economics*, May 1934, page 518.

is wrong to set up a law of marginal utility without ascertaining beforehand the precise market relationships for which it is to be valid. The marginal utility schemata has an entirely different significance, according to the circumstances if I set it up for a horse market in Eastern Galicia from where the classical example is taken, or for the Stock Exchange in London. With the economic man of Classical economics... ...we can begin something within certain periods of the capitalistic economic system; in the frames of the simple economy, handicraft or communistic economy—nothing."

Instances of Institutionalism

Freedom and competition, labour and contract, ownership and rent have to be interpreted by a different theory in so far as these phenomena belong to the village communities in India and China, the capitalistic economy in Western Europe and the collectivistic system in Soviet Russia. Staley delineates "a spectrum of economic systems", which have existed or continue to exist as follows:

The two poles of this spectrum are the "pole of pure free market, price coordination", on the one hand, and the "pole of complete central planning and control", on the other. Between these poles are six different types of economic organisation in which property, exchange and distribution are hardly comparable with the market economy of the capitalistic order based on the fundamental institutions of private property and private control of the means of production, with such associated features as freedom of enterprise, of exchange and of contract.

The "Spectrum" of Economic Systems.

(1) Laissez-faire; small-scale, competitive industries; relatively little state intervention; little monopoly.

Early nineteenth century, Western Europe and America.

(2) Agricultural communalism; custom; small scale village and cottage industries; control by guilds and castes

which cohere in a loose type of federal structure and exercise to a limited extent the economic functions of government.

India, China and Japan in the past.

(3) Much state intervention; large industries; monopolistic tendencies; some collective ownership.

Western Europe and America today.

(4) Extreme state discipline of private owners; direction and limitation of investments; "military economy", but private profit and ownership upheld.

Germany, Italy and Japan today.

(5) State control of "commanding heights", conscious repudiation of private profit and ownership, but much free enterprise permitted as matter of expediency.

U.S.S.R. under New Economic Policy (1921-1928).

(6) Basic economic planning; industries state-run; few sectors incompletely collectivized; controlled price system in distribution.

U.S.S.R. today.

As one moves along this "spectrum" from the pole of free market coordination towards the pole of central planning and control, one seems to move also:

From private property rights in productive instruments towards collective ownership,

From governmental functions confined to policing, "refereeing" and maintaining the framework within which the market system operates, towards governmental management of the whole industrial system;

From relatively distinct political and economic systems connected by a thousand more or less devious ties, towards a merging of economics and politics, at least at the higher levels;

From great decisions that are totalled up from small decisions in an impersonal market and hence appear as the automatic, unwilled result of "blind" forces, towards great decisions that are deliberate, direct, conscious, personal

and willed.[1]

It is obvious that planned or regulated economy in the U.S.S.R., Germany, Italy and Japan today involves the emergence of different kinds of institutions such as cartels and other producers' organisations, created or supported by the state, and an industrial bureaucracy, controlling the production and consumption of commodities, credit and currency as well as the amount of imports and exports, according to a general economic and social plan. Institutional relations also change such as free enterprise and contract, the contents of private property and the market mechanism. The central authority of the state largely assumes the rôle formerly undertaken by free exchange in the capitalistic order. In all such cases it is the theory of institutions which comes first to supplement and interpret concrete economics. Without it prices, production and indirectly consumption cannot be analysed; while the distribution of the total social dividend is directly altered according to new social aims whether by a minority, as in the totalitarianisms in Germany and Italy in the interests of autarchy and political power or by the majority, as in Soviet Russia in the interests of economic security or social equalisation.

In the agricultural communalism of the East which has not come within the ambit of industrialism, the rural community which is the strong bulwark of peasant proprietorship and the organisation of guilds and co-operatives in industry encourage an integration of economic interests and an exuberant group formation devoted to a wide variety of cultural functions and services. Groups whose origins are not rooted in economics easily take up control of both economic and social interests, activities and functions. Thus the functions of class, caste, guild and cooperative blend as religion, culture, occupation, standard of living and social

[1] E. Staley, *World Economy in Transition* p. 151.

manners are implicated in one another. Custom prescribes roughly a minimum standard of wages corresponding to the average family needs and social status of an occupational group. But if an occupational caste or group has to work harder, or its physical conditions are different, the general or standard rate is altered to meet its specific requirements. Again, the standard rate of wages conforms to the normal unit of economic services required of village artisans and functionaries. The economic services normally required of artisans and labourers by the average village are distinctly remembered, and even written in the village records. If a villager requires more work of the artisan, he is paid in excess of what is due for a normal unit of work. If the latter be asked to furnish a commodity requiring special skill and dexterity, he is paid special rates which would represent his differential wages corresponding to the superiority of the labour to that required by common usage. Wages also fluctuate according to harvest conditions and customary agreements are revised in the villages from time to time due to the movement of population in the village and of local prices. A study of the variations of wages in the village communities would give conclusions far different from the theories of rigidity of wage-level with which we are usually favoured by Western observers. Status decrees a certain minimum of wages based on social judgment, which exercises a significant influence on the standards of living, on the costs of production and on the conditions of industry.

Distribution, Entirely an Incidence of the Prevalent Class Structure

Economic history amply shows that the system of wage payment as prevalent in capitalistic industrial society did not exist under slavery, the feudal system and the village community. Protective labour legislation, governing the conditions and hours of labour, and discriminating men, women and

children in this connection, also has made the wage system in modern Europe far different from the wage slavery of the nineteenth century; while under the present collectivist regime in Russia the wage system does not exist, necessitating a new theory of norms and awards of labour in Soviet economics. The cost theory of wages, or its later development, the marginal productivity theory, which superseded the former iron law of wages—an outgrowth and rationalisation of the conditions of employment of labour in England,—does not fit in with the present conditions even as the widespread unemployment or under-employment is to be attributed not to the law of supply and demand, but to institutional misfits. Similarly the law of rent, which has been deduced from the peculiar land situation in England was early modified in the United States, where both public ownership and taxation and the exigencies of colonisation did not permit or delayed the emergence and appropriation of differential gains from land and the rise of a class of idle land-owners profiting from unearned income. In India and China where peasant proprietorship is widespread and the village community has distributed holdings of the peasant families among the different soil blocks of the rural settlement and has maintained strict authority over the use and management of wastes, meadows and over-irrigation, the Classical division of the agricultural community into landlords, cultivators and labourers or the Ricardian differentiation of land into the first, second and third grades do not exist. "The Ricardian analysis of distribution," observes Allen, "demonstrated that the interest of the landed proprietors was necessarily antagonistic to that of other classes, and this analysis accorded well with the political cleavage in England of the times and supplied the arguments directed against the Corn Laws by both working-class and middle-class leaders." In India and China rent is a matter of pure arrangement between the cultivator and the landlord or the chief; there is neither marginal land nor economic

rent. The surplus produce of the land differs according to the facilities prevalent in the region relating to the quota of capital, stock and equipment as shared between the cultivator, the superior proprietor and the rural community. The functions of the landlord, cultivator and agricultural labourer slip into one another, and the bulk of the surplus income from the land goes to the cultivating owner and there is no rent as subtraction from wages. Alike in the village communal and collectivistic systems rent emerges as the pressure of population leads to the cultivation of lands, inferior in fertility, or disadvantageous with reference to their situation. But while rent in the capitalistic individualistic system perpetuates privilege and increases the disparity of opportunities in land utilisation, rent in the village communities of the East or the collectivistic system in Russia only makes the conditions of life and labour of the rural community more and more difficult.

The Incentives of Production and Saving in Liberal Society

The rise of the new industrial and commercial class in Europe, characterised by thrift and capacity for small savings, and of small-scale industrial establishments, which depended for their capital on the savings of this class, early rationalised the need of accumulation of industrial capital into a group habit. It was this class which stood to benefit from the system of freedom of competition and enterprise, advocated by the Classical economists, and from the abolition of all governmental regulation that was administratively efficient and was under the control of a landed aristocracy. The Iron Law of Wages, which was formulated, could bring about that rational distribution of labour and migration from unremunerative industries to those branches of production which profited from the marvellous advances in technique. Thus could be assured effectively the transition from

the poverty of the agricultural state to the prosperity of an industrial community for which new markets were being secured by political conquest and colonisation abroad. It was taken for granted that the causes of "economic friction", which pertained to the social structure and the psychology of workers and employers, would gradually disappear and permit the free adjustment of supply and demand of labour and capital which would bring about an increase of the national income. The law of interest was formulated as a necessary motive for abstinence or saving in order that industries may be kept going, and there may be prospects of increase of efficiency by the application of more capital. In the peasant economy of the East, the community often guides the apportionment between present and future consumption through the agency of village granaries, *dharmagolas* and *nidhis*, which store grains for seed or for consumption in the case of drought or famine. Similarly the joint family, clan or caste form the chief support in cases of illness, disability, or unemployment, thus subserving in some measure the purposes of insurance, and also offer facilities of credit to meet unforeseen expenditure. Thus in the East the communal bodies not only direct the objects of expenditure, but these also take away from the individual in some measure the inducement for saving. The payment of interest as the incentive of saving is accordingly a phase of the development of individualism, thrift and ownership of industrial capital, in Western Europe, in the nineteenth century.

Where agriculture and village collectivism are dominant, the necessary allocation of social energy as between the making of producer's and consumer's goods is worked out differently. Interest payment may or may not be a wholesome collective habit; this could only be decided in the context of the entire pattern of social institutions and values that envelop economic activity. In the collectivist system of industry, it is the foresight of the supreme economic council which apportions

the distribution of the capital and labour for the making of capital and consumer's goods as a means of more collective savings or the production of more instruments of production. It is probable that if the abstinence is spread over the whole collectivity it involves a smaller average individual sacrifice, just as the burden of rent, being widely diffused is probably less in the collective than in the individualistic economy. Where the bulk of the saving is done socially, and the community apportions energy in the different lines of human interest in proportion to the needs, leisure and desirable wants of man, interest will disappear as an individual share in distribution but will persist, like rent, as more or less hard social conditions.[1] It is clear that social psychology will have a great deal to do with the application of the general law of proportion of factors of production to economic activity.

The incentives to labour and saving are a part of social psychology and embodied in appropriate patterns of institutions and traditions. The economic theory, which holds that it is wants which stimulate economic activity and that interest is the reward or incentive of saving, still dominates, taking its root from individualism and private property, characteristic of the nineteenth century phase of social history in Europe. It is now, however, increasingly recognised that the incentive for discovery so indispensable for technical progress and invention is not profit; and in fact even in countries where men are born and bred in an atmosphere of individualism and large personal profits, the inventions have come from persons who are relatively poor, and do not seek large incomes but are in some measure protected against economic uncertainties. It is also discerned that in public owned works there is greater zest for discovery and initiative in the technical field than in the privately owned establishments. In the Russian collectivist experiment, however, the revolution in

[1] See Peck's discussion on the subject of interest in collectivism in *Economic Thought and its Institutional Background*, pages 356-363.

labour psychology has been most profound, men and women of the communist party with the bare necessaries not only rejoicing in strenuous work but also in earning as much as possible for the collectivity. The Russian social institutions and ethical norms are conditioning the emergence of a new type of theoretical and social worker, hitherto unknown in the industrial world.

Institutions and the Individual

To be sure, the Classical economic theory is an illustration of institutionalism. Private property, inheritance, government, taxation, competition and credit represent the material and technological culture of nineteenth century capitalistic-industrial Europe. The glorification of individualism and of thrift and freedom of enterprise represent the pattern of collective behaviour favoured by the social, industrial and technical changes that have been collectively designated as the Industrial Revolution in Europe. The small middle and entrepreneur class, who ushered in the Industrial Revolution and profited most from it, governed not only the scheme of distribution of wealth in the community but also the modes of expenditure and uses of leisure of individuals, and their rationalisations, attitudes and evaluations have governed capitalistic industrial society in Europe for a whole generation. It is the opposition of this powerful class and their vested interests which are also today the chief obstacles to the abolition of a competitive economic system rather than the strength and persistence of the individual's profit motive. The present industrial regime in the Western countries is relatively young, created by steam and electricity during a century and a half from 1780—an epoch marked by more technological changes than any previous thousand years. Even in the midst of the revolution in economic and political institutions many of the essential and persistent modes of association which control man's dispositions, habits

and behaviour from below the surface have not changed materially and remained unnoticed. This explains the persistent antithesis in the West between individualism and collectivism, both reflections of accumulated customs, habits of thought and culture as modified by the machine and its technology. The incentives of the machine age do not assimilate with the accumulated culture of the past, and nothing is more symptomatic of the transition in modern culture than the dualism between the norms and ideals which dominate literature, religion and education, on the one hand, and property and industry on the other. Economic and social experiments in which incentives other than those which operate in capitalistic society should be given a fair and free trial without the interference of outside authority, while at the same time education as a controlled process of eliciting the distributive and eliminating the appropriative and possessive desires and interests of the individual should be adequately utilised.

The development of social sciences is incompatible with unplanned haphazard development of industrialised society. Scientific method and technique must now be used to control the all-pervasive and enduring machine and its technology for beneficent social aims. As a matter of fact neither religion nor morals can socialise science and machine technology as effectively as methods of science on which we have to depend more and more for planned control of the social operations and effects of power production. Science and the arts are potential implements of realising the conditions on a large social scale under which industrialism becomes no longer inhuman, immoral and unaesthetic. Social planning should not be confined to collectivistic society.

Whether in Western Europe, or in Russia, or in the East the issue is obscured by repeating the antithesis of capitalism and communism, of individualism and communalism. The problem alike for the East and the West is the planning of resources, scientific skills and techniques and economic

institutions, so that these may fit with one another and direct man's impulses, interests and habits as well as his tools of production and exchange for the sharing of a fuller and more abundant life for all. It is the realisation of this practical object in the actual social situation which will furnish the judgment of the different plans of action treated as hypotheses and not as established dogmas.

But the problem is not merely one of social planning but also of an ethical transformation. The 19th century social struggle developed as a postulate of order and progress the ethical significance of liberty in the individual. That notion of liberty played its essential rôle in the institutional adjustment. The remarkable success of modern capitalism and enterprise cannot be grasped without realising the vistas of intellectual development and activity which the liberation of the individual assured. The 19th century democracy had also a greater homogeneity of interests, which was the medium for the spirit of compromise that ensured a smooth working of the political system. Vast institutional changes now challenge not merely the older forms of individual conduct but also the ethics of individualism. Collectivism has come to stay, and stressed the inevitability of compulsion on social grounds. The totalitarian and the collectivistic state has developed new norms which justify an ethical control and correction of the individual for the realisation of collective purposes. In Marxian sociology the change in social and economic conditions is postulated to bring forth the new ethical individual who will be far different from that envisaged by the older liberalism. But Marxism relies on political leadership and mass psychology, not on the spontaneous ethical transformation of individuals. In the future society the collectivity will have common purposes in which every individual would share. But such purposes will be social and ethical rather than economic. The former draw men

together; the latter sunder them. A state which is grounded on mere economic culture cannot have a mission and destiny in which its citizens can consciously participate. Above all, the state in order that it may give meaning to the lives of individuals must maintain and develop the freedom of conscience which is demanded by man's moral nature itself. A fuller sharing of the community life can come not from the behests of mass democracy and organised economics but from the expansion of individuality, which is neither derived from nor alterable by either the state or the system of economy. Moral and spiritual values are not reflection of institutions, nor are these rooted in subjective choice and judgment. While these emerge from a sphere that is outside both the self and the community, they express themselves in forms and orientations as are necessary to the new institutional situation. Thus though institutions in large measure govern the scale of valuations, yet it is the individual, the custodian of the absolute values, who by his evaluative judgments builds up his new social environment.

CHAPTER IX

TYPOLOGY OF CONTRASTED ECONOMIC SYSTEMS

Ideal Types, Capitalism and Communalism

The patterns of institutional standardisation govern the incentives of labour, conventions of competition and co-operation, property and contract, which specifically define the use and acquisition of scarce means, and of other individuals as means in an economic system. It is thus the theory of institutions which can show us the mechanism of economic forces, of the relations between means and ends in an economic system. It is essential that human ecology, social anthropology, history and sociology should help economics in defining particular economic systems and their dominant motives and persistent conditions, the outcome of the cumulative force of institutions, traditions and environment.

Max Weber in his historical and sociological writings has successfully utilised "ideal types" for concrete investigations of complex social data. Weber's *Ideal Typus* is a special instrument of analysis which gives the clue to understanding a cultural phenomenon described as 'the historical individual'; it is a "fiction" in Vaihinger's sense and is thus different from a hypothesis. It furnishes a point of reference with regard to which the actual motives or conditions of the concrete cultural situations are analysed, interpreted and judged. A most significant illustration is Weber's formulation of the ideal construct of modern capitalism, which has helped him in analysing cultural, social and economic relations for interpreting the transformation of European Society, worked by the Industrial Revolution. In contrast with Weber's ideal construct of modern capitalism may be set communalism as

the ideal construct of the economic organisation in the East, based upon the village community, handicraft, caste and guild structure now facing the disintegrating forces of modern capitalism.

The Evolution of the Village in India and in the West

Rural history in the East is far different from that in the West. In Europe the village was over-shadowed by the imperial system and feudalism, which obscured the ancient communalism, suppressed the rights of the villagers in the common lands, disintegrated village solidarity, and absorbed most of the profits of agriculture so that the peasantry were debased. In India and, generally speaking, in the East, the village communalism has been far more widespread and the common pasture, the rights of grazing and cutting fuel, the holdings lying not in contiguous blocks but in scattered strips so as to profit from different soil and climatic conditions, the collective management of irrigation, communal employment of village artisans, servants and functionaries, the maintenance of a collective village fund and its expenditure on village temples, schools, tanks, irrigation channels etc., all these still testify to the persistence of ancient and essential co-operative traditions unknown to the Western villager. The distribution of strips of land from each soil block of the rural settlement equalises opportunities in agriculture and irrigation among the various peasant families; while the maintenance of unappropriated woods, meadows and pastures, out of which holdings can be created as the rural population multiplies prevents the rise of a considerable land-less class. Both the open and scattered field system and common rights in woods, pastures and irrigation channels have been bulwarks of village solidarity and peasant proprietorship. The early English administrators, born and bred in the individualistic traditions of Bentham and Ricardo, treated these as tribal-communal relics of the medieval past. Both land-settlement

and local government tended to obliterate that careful adjustment of rights in land between the different classes and that efficient local co-operative service, which the Indian village community has evolved through the centuries in response to the agricultural needs and social instincts of the people. Indeed, the disuse of village law and custom as regards communal control of pastures, tanks and irrigation channels, or the management of common village funds and functionaries have in recent years contributed in no small measure to the decline of agriculture in the country. Many reparative measures now have been undertaken by the government in different provinces to check the breakdown of the village communities, rural services and agricultural customs. Such, for instance, are the Punjab Land Alienation and Pre-emption Acts, the Madras Acts for the rehabilitation of co-operative irrigation and village services and the various village Panchayat Acts, which have for their purpose the revival of village organisation and peasant solidarity.

Nor has the system of organisation of handicrafts in castes or guilds lost its vitality and adaptability even in spite of the inroads of modern industry. There have been developed a good deal of division of labour, specialisation of occupations and localisation in the Indian communal organisation of industry. In the organisation of arts and handicrafts, different grades of work are allotted to different classes of labour, and sometimes industrial villages, composed of settlements of artisans and labourers, specialise themselves in particular industries and manufactures. The prevailing ideas about the isolation and stagnation of the Indian village system are due to the application of the logic of the Western economist to Indian economic conditions. In Western Europe till the Industrial Revolution villages were more or less isolated and had to supply their own wants, because communications were not sufficiently developed. In India, though the village has been self-sufficient so far as food stuffs and the neces-

saries of life are concerned, it has imported all the luxuries it wanted from outside, as it is doing even now. The products of the cottages and workshops of some industrial villages have been well known throughout India, and before the days of steam power, were exported to China and the Far East, as well as the ports of the Red Sea and the Mediterranean.

Group organisation as a Form of Functionalism

In India the self-directed village communities and industrial guilds still prevail, but the village collectivism and guild structure which are still vital could not strengthen themselves by combination and federation for economic as distinguished from social purposes. For future reconstruction the ideals and structure of co-operative production and guild-socialism as in Great Britain, of corporative economy and the transformation of guilds into cooperatives as in Italy, and self-government in small units of industry and collective farming as in Russia demand serious consideration in this connection as being more adaptive than the type and organisation of capitalistic industry. The settled habits of the population, the instincts of attachment to the home and the soil, the traditions of mutual help and neighbourly offices which naturally spring up in the village commune, have developed into a rich constructive communalism in a deeply socialised and humanised life and have determined the specific type of economic organisation. The prosperity and political power of cities and towns never have been able to eclipse the self-government of villages, clans, castes or brotherhoods, the foundations of Indian polity, and the self-direction of agriculture and industry in village communities, and industrial guilds, the foundations of Indian economics.

Alfred Marshall in discussing the industrial dominance of the Western nations, has pointed out how physical features

and social history have determined the type of leadership obtained by each of the countries in Europe. The physical features of France, for instance, have not favoured industrial concentration; and, with the early suppression of the middle class, French industry mainly was given to cheap local products, on the one hand, and, on the other, to find goods embodying some artistic feeling and individual judgment. France, which owes relatively little to the aid of mechanical power in manufactures, affords the chief instance of a leadership based on individual skill and individual judgment, and sets an example to Eastern countries, not merely in her most successful cooperative undertakings, but also in her special superiority in delicate industries. If variations in industrial evolution are true of Europe, which has exhibited on the whole a unity of civilisation and similarity of social institutions among each nation, in Asia, where the industrial and social structure is so different, the types of industrial structure and organisation would depart materially from the large production of the nineteenth century in Europe or the new massive production of the United States. In the communal societies of East Asia natural associations and alliances of village communities, guilds and brotherhoods grew into a system, instead of the grouping for mutual protection of men and large estates, which has supplied the framework of the European economic and social organisation. Chinese land always has been cut up into small holdings divided among all the sons of the family. They are chiefly freeholds and cultivated intensively. There are no great permanent estates as in the Western World. In China, Japan and India the system of peasant proprietorship has combined with the economic solidarity of the family to keep alive cottage and village industries, which also have developed a system of travelling brokers and middlemen, who make their products accessible to the markets. The patronage of the temple, monastery and court has been the steady support of artistic

industries even in the country districts; and the Eastern peoples, particularly the Japanese, who have a rich endowment of the artistic instinct and delicate sensitiveness, have applied common and skilled labour to delicate metal, wood and textile work in a way unknown to popular art and craftsmanship in the West. In India it is the hereditary and caste tradition which has contributed to maintain high excellence in artistic handicrafts. Everywhere it is the guild which has laid down regulations in the interests of the particular craft or industry, and it is the sense of social cooperation, developed in the compact life of the village community or clan and family village, which has prevented the industrial guilds from warring with one another or conflicting with the interests of the consumers as they did in the medieval West. In the East, a strong and rich middle-class has existed in the cities only, where the workshop system has developed out of a more specialised organisation of the handicrafts, producing common goods for a wider market. In Japan, the communal bond has been very much weakened by the old feudal system and by the new centralisation, an outcome of the impact with Western powers, which has compelled her to accept militarism and industrialism, however uncongenial they may have been to the temper of the people. But in China and India, whether in the more or less autonomous villages or the self-governed industrial and commercial guilds and associations, communal habits and traditions are very much alive as potent forces of economic renewal. The phenomenal success of the co-operative movement within a decade or two in India, and of the great mercantile guilds in China in organising her commercial credit may be quoted as instances of the strength of their old and essential communalism.

Group Organisation as a Form of Regionalism

Neither villages nor castes in India have been local organisations: nor does caste weave the whole and complex

web of Indian life. There are distinctly effective neighbourhood bodies or *Panchayats*, where several castes are represented as well as active caste *Panchayats* and guilds, which include the whole brotherhood inhabiting a group of villages and extending beyond the districts or merely a few selected sub-castes. There are thus many threads of social cohesion and often these cross one another. The tendency always is for the local, occupational and functional bodies to seek strength by combination and federation. Assemblies of five, ten and twenty-five villages unite in a loose organisation and deal with all kinds of matters agricultural, economic and social, from common festivals and recreations to the excavation of a tank or the construction of an irrigation channel. Similarly, caste and guild bodies extend their jurisdiction over a whole culture region, a guild comprising different castes and a caste having sub-divided guilds. Outside the pale of the centralised administration and the capitalistic industrialism which has reared its head in a few cities, the influence of village councils and caste *panchayats* still governs social and economic relations. Local and occupational groups, based on the contrasted principles of neighbourhood and occupation, both grow in extending circles of authority, which sometimes intersect, and there are instances where there is a striking adaptation to the larger needs of commerce and centralisation. A greater admixture of higher castes implies the relative strength of the village councils; such caste or sub-caste has its own separate *panchayat*, and there is a general caste *panchayat* with controlling or appellate jurisdiction over their decisions; castes and guilds have their collective capital which is in full sense a social asset; thus directly and indirectly they influence the interests and ideals at work in that district; the ramifications of caste and guild organisation often extend throughout the whole region in a system of industrial management in concentric circles binding together men of similar vocation. There is an interlacing of village and caste or guild institutions and functions in Indian society which emphasises social

ends, and prevents the crystallisation of class feelings and interests. On the other hand, in this system the isolation and segregation of castes are compatible with a great deal of life in common and with active participation in village councils in the particular region. There, no doubt, have been abuses, but it is nevertheless true that the general tendency has been to lift the village, caste or guild bias into a broader mentality, and to utilise the group spirit as far as possible to protect the rural population against exploitation.

Elements of Contrast between Capitalism and Communalism

We may now indicate the main elements of contrast between modern capitalism and communalism as ideal constructs, remembering its practical methodological significance and that it is built by means of a one-sided emphasis and intensification of only some aspects of a concrete occurrence. The aim here is not to idealise, not, that is, to evaluate phenomena either positively or negatively, but rather to work out a type as it might be thought to have developed in free and undisturbed conditions. "Ideal types", observes Franz Oppenheimer, "are not instances of pure reality, since they are of course always transitions and external disturbances. Nevertheless they must be set up for reasons of thought-economy, so that the mass of phenomena may be strained, so to speak, through a graduated sieve, thus making an orientation possible." Both the ideal types as well as differences between the actual social situations and their ideal-typical constructions will facilitate the understanding of the actual motives or conditions which have determined the existing situations in Europe and the East.

MODERN CAPITALISM (*Ideal typical construction*)	COMMUNALISM (*Ideal typical construction*)
1. The stress of contractual-rational relationships based on the rights of the individual to the produce of his labour and to free exchange of the same for an equal value received in the context of the market.	1. The stress of face-to-face relationships and social rights and obligations based on the principles of a community of life and the responsibility of each for all in an organic-communal society.
2. In a regime of competition, the calculation of efforts and utilities becomes the standard, and organises all social groups and relations which fulfil instrumental values. Economic life tends to stand apart from, and sometimes even opposed to, the scheme of social and ethical obligations.	2. In a regime of custom, natural and ethical relationship satisfying certain vital interests and urges and fulfilling certain intrinsic values tends to be superimposed upon and to humanise economic relationships. Economic life is brought within the scope of social and ethical categories.
3. The system of distribution of wealth and services is individualistic. The whole social dividend is here shared among the individual producers with nothing reserved for the community, except so far as the state claims a part for purposes of regulation, and not as a co-owner and co-producer. Private property rights are accordingly emphasised against the community.	3. The system of distribution of wealth is communal. The community here takes an independent share of the dividend, being regarded as a co-owner and co-producer, for purposes of education, charity, and support of the higher personality-classes. Private property is owned and operated on communal rather than competitive principles.

MODERN CAPITALISM (*Ideal typical construction*)	COMMUNALISM (*Ideal typical construction*)
An inequitable distribution of wealth and opportunities often withholds from the majority the very values which are sought.	A customary distribution checks free adaptation to new cultural needs, stultifying the very principles of proportioning reward to merit.
4. The regime of competition tends to convert the economic sphere into a sphere of conflict of social groups which devote themselves exclusively to economic interests and functions, and crystallize themselves into economic classes. This leads to constant struggle and exploitation of the weaker groups by the stronger. Hence arises the necessity of interference of the state as an arbitrator of industrial and social peace. There is a striking development of individual initiative but the economic freedom of a considerable section of the people cannot be achieved, nor do these adequately share in the wealth and happiness created in the community, and on the whole there is social inefficiency due to chronic class	4. A regime of status tends to degenerate into an authoritative regime of rigid and inelastic social groups and arbitrarily fixed social and personal relationships. This leads to the loss of individual initiative, on the one hand, and social stagnation, on the other. In communities dominated by status, groups unite not on the basis of economic interests but of similarity of mode of living, religion and culture, and there is less of social cleavage which in its origin is not economic. Not economic classes but cultural groups rigidly control economic as well as social functions and interests, embracing the occupation, standard of living, religion and social manners of individuals. The economic competition between individuals

MODERN CAPITALISM
(*Ideal typical construction*)

friction.

COMMUNALISM
(*Ideal typical construction*)

is regulated in a two-fold manner.

(*a*) Custom determines both the vocation of individuals as well as their standard of social living, and social control is attained by voluntary traditions of group planning and co-operation in place of the imperfect control of the price system. Custom ensures a living wage and controls the profit motive by rewarding special skill or excellence in work with social recognition and improvement of social status. The formation of new social groupings often corresponds with an upward economic movement and consequent social differentiation. As agricultural and artisan groups rise in the economic scale, in every step in the rise there is a ramification of social classes or castes into groups, marking an ascent in the social ladder.

(*b*) Caste and guild regulations are rigorously observed. Out of the crystallized agreements an ethical

MODERN CAPITALISM (*Ideal typical construction*)	COMMUNALISM (*Ideal typical construction*)
	standard, an element of public opinion comes, which rises into a principle which society cannot oppose. Castes and guilds lay down strict rules of industry and trade, and exercise to a limited extent the functions of a trade-union, a credit and benefit society, an accident or insurance association. These restrict unfair competition between individuals, insure good work and prevent the degradation of wages and the workingman's standard of living.
5. An industrial society based on competition tends to develop towards the regulation of contractual relationships in the interests of justice, freedom and equality, thereby placing competition on a more worthy and more humane plane. The aim of collectivism has been to equalise opportunities with regard to control and management of industry, while a fairer distribution of the national dividend through a more equit-	5. The progress of an industrial community based on status lies towards the development of contractual relationships in certain spheres of group life. This is the progress from status to contract, which, according to Maine, holds the key to social progress. But this need not imply a complete disintegration of natural groupings and patterns of behaviour which maintain the economic solidarity and social peace

MODERN CAPITALISM (*Ideal typical construction*)	COMMUNALISM (*Ideal typical construction*)
able system of taxation and regulation of wages and individual expenditure by public opinion contribute to restrain individual freedom and economic power and the play of the profit motive, and to provide a social milieu for the gaining of power through co-operative achievement and shared prosperity and happiness.	of the community. In fact the economic progress will be found to lie in the conservation and development of the vital forms of communal life and institutions in adaptation to the complex economic and social needs of today. Thus in the East there is greater chance of economic renewal through some form of group organisation, akin to guild socialism, corporative economy or functional government or rehabilitation of the voluntary traditions of social cooperation which have been the bedrock of rural and functional governments in the East.

The Role of Institutions in the Prevention of Conflict between Different Social Aims

A new set of institutions and culture patterns representing different ethical standards is now conditioning different patterns of economic activity in Europe as well as in India and China. In the industrial society in Europe founded on freedom of contract and exchange, the system of property and distribution, which is a social and historic product, and the net-work of political systems and juridical rules, which have stood for the greatest personal profits of individuals at the minimum cost, are now systematically

modified and overhauled in obedience to different ethical choice. Hard bargaining of free individuals and contractual relations have now come to be regulated in the interests of industry itself as well as of those of vital efficiency and well-being. Social services are established; sickness, old age and unemployment insurance stresses the liability of the employers. The state takes upon itself the responsibility for the nurture and education of children by means of family allowances and free medical care and schooling. There is also legislation requiring the use of safety devices in mines and factories; invalidating contracts, whereby the workmen release the master from his statutory duty; limiting the hours of labour; regulation of leave and conditions of employment, housing and sanitation; and at last after much hesitation, the fixation of minimum wages and security of employment. England has established wages boards in "sweated industries," which fix wages paid to workers without limitation of age or sex. A decision of the U. S. Supreme Court has drawn a distinction between regulation of hours and regulation of wages. "There surely is none when liberty is viewed, not negatively or selfishly as a mere absence of restraint but positively and socially as an adjustment of restraints to the end of freedom of opportunity."[1] In most social legislation, a new ethical valuation is fundamental. A majority of social protective laws protect the weak from being forced into contracts injurious to their welfare, and place competition on a more worthy and more humane plane.

Wherever there is a process of disintegration of values which means the separation of the economic, the social and ideal phases from one another, social norms, moral scruples and religious beliefs have emerged, protecting the integrity and evolution of group life, which above everything else is essentially the creator of values. Herein lies the true signi-

[1] Cardozzo: *The Paradoxes of Legal Science*, p. 117-118.

ficance of institutions which prevent the conflict between value planes. The latter if unchecked not merely threatens social solidarity but frustrates individual lives as well, through disintegrating the scale of preferences upon which the individual relies for guidance in society. What is good in the economic process and its outcome is the result of what is good in the ends of individuals and the economic institutions by which these are reconciled and integrated with the ultimate values or partly socialized, or by which at least their actual conduct is partly socialized, the element of social purpose being embodied in these very economic institutions, and, finally, precisely in so far as the economic process is blind or automatic, and in that sense natural, in so far, in other words, as it is not guided by human foresight employed in the service of completely ethical ideals, in just so far does the economic process described by economic laws fall short of being the kind of social process that can result in the complete "harmony," that would really "maximize welfare."[1]

The Changing Contents of Institutions

The theory of institutions is of course a division of synthetic sociology, and includes a study of the value attitudes of the community and means of social control, which regulate economic behaviour. Such a theory, however systematically it may list and classify the institutions, cannot give a complete explanation of group action. There is always a floating mass of social habits, values and standards which are not institutionalised. Thus institutions and standards of groups do not exhaust social behaviour, much in the same manner as the inventory of instincts and desires and of their combinations by the psychologist cannot explain fully individual behaviour. The theory must be dynamic, for institutions change constantly and with varying

[1] Compare O. H. Taylor: Economics and the Idea of Natural Laws, *The Quarterly Journal of Economics,* Nov. 1929.

rates of speed. There is a constant pressure on man's institutional framework both from within and without. New evaluations and standards set up a re-orientation of institutions and the values these express, while conquests and culture contacts, industrial discoveries and social discords, famines and epidemics also warp and disorganise the patterns of human activity. A dynamic theory must recognise not merely the complexity but also the changing variety of institutions, and culture patterns, some tentative, others adaptive, some useful, others effete and harmful, some, again, lingering as vestigiary organs of the social body.

The theory of institutions will also be regional and anthropological. It will differ according to the region and the stage and type of economy, as, for instance, the village communal system, the feudal system, *laissez-faire* and capitalism, centralised and monopolistic industry and collectivist planning. Due to multilinear social evolution in diverse regions and zones both the theories of economic institutions and economic behaviour will vary. Variations of economic and social types have great methodic significance for both economics and sociology as they represent the raw materials of uniformity of order and rules of motion which when compared and collated can establish universally valid principles. A strong bias in favour of regional, historical and institutional economics places the problem of value and prices in their proper setting.

On the other hand, when economic theory stresses the desires for economic goods and services as relative to social norms and ideal values, the way becomes open for profound disagreement, for intellectual analysis cannot bring about a conformity with regard to value attitudes. The centre of interest is, also, shifted from purely scientific interest to social policy, political control and economic planning. The outstanding contribution of Marxism to the social sciences is its conviction of the impossibility of divorcing thought

from action. An economics existing independent of ethics and an ethics independent of economics are simply impossibilities. Karl Marx's *Das Capital* is, indeed, the first complete introduction to the theory of institutions, although, this represents a biased theory and biased planning. Marx observes, "Economists are strange creatures. For them feudal institutions are artificial, bourgeois institutions are natural. Thus there has been history in the past, but now history is finished." From a biased theory of institutions, however, he proceeded to create a new history for Europe.

Apart from the writings of the economists with a socialistic bent, the followers of the Classical School are extending the scope of equilibrium economics to include study of the conditions of work, welfare and unemployment, and discussing the criteria and means of reaching optimum production and population. The scope of price economics is broadening to comprehend the social-psychological conditions of market investment and finance. Similarly, the theory of distribution is no longer unmindful of the implications of the original allocation of income and implements of production; it links itself intimately with theories of public control and ownership of industries, of taxation and social insurance. From these and other fields, the search for reality in the institutional background and the setting of wider social and cultural influences is coming to dominate methods of economic analysis. Thus there are fewer adherents today of a rigorously "scientific" treatment of economics after the Classical model, and the greater rapprochement of economics with political science and sociology more and more narrows the field of economic analysis, accustomed to disregard aims and norms and to consider only the economic transactions in the form of commodity statistics.

Its Role in the Evaluation of Different Economic Systems

Yet the most important contribution that the theory of institutions can make towards economics is in further analysis of the psychological and social results of any given economic system, and hence in laying the basis of inductively reached evaluations. In its insistence upon opportunities being given for an outlet of the vital instincts, desires and urges, always struggling for expression, and arraying them on the side of progressive social activities, it offers a new solution to the problem of economic reform. Thus economics is not converted again into a 'dismal science' though the original equipment of human nature attracts renewed attention. With our new knowledge of educational methods and processes and the cultural value of institutions, attitudes and habits as reshaping man, and remoulding his values, the idea of social planning or purposive intelligent control over institutions comes to occupy the very centre of economic thinking. This is a change from the older, pure, non-evaluative economics to economics as a functional science, which must reach inductively scientific criteria of functional appropriateness of economic processes and institutions, or of the role played by traditions and attitudes making for cultural lag or mal-adjustment or their opposites.

Thus the rival schemes of industrial self-government socialism, syndicalism, communism or communalism have to be judged not only by the test of productive efficiency, but like all such human arrangements also by the criterion whether the balance struck between expression and repression in the economic institutions is the one best conducive to the development of personality and social harmony. Nor will the human institutional adaptation be of a standardized pattern; for races and regions vary in the endowment of instincts and in their social inheritance, though the intercourse of economic ideals and education comes to modify habits and tradi-

tions. Further, given the accumulated force of institutions, traditions and environment, the economic problem may be solved not by resorting to socialism or communism as an ideal of social organisation but by a sort of compromise making industry work as humanely and equitably as possible under the modern conditions of production and scheme of distribution. The conceptions of property as a social trust, of ethical competition and of a moralised industrial world in which there are trust and mutual partnership of the factors of production, and especially social foresight and goodwill among entrepreneurs and industrial leaders, are all significant in modern economics as representing the victory of higher social and ethical ideals over subjective economic values. No doubt economics will, in these fields, obtain the most powerful aid from the theory of institutions and analysis of objective criteria of welfare adopted by different cultures in gradually subordinating the arts of production, and consumption to the general art of human conduct, which is the sphere of ethics and social philosophy.

Relativism in Economics

It is only the comparative theory of institutions which can explain the vast differences in economic and legal systems and moral and social valuations and their divergent trends among different races and civilizations. Both the economic system and the ethos of Hindu religion and communalism, for instance, are entirely different from the economic system and ethos of Christian or European civilization. It is regional and historical economics which gives the intermediate generalisations which have to be compared and collated so that these may rise into a universal science. All social development including the economic is diversely ramifying; yet in spite of diverse and multiform series there is a universal movement. This relativism both in economics and ethics does not point to the relativity of values to men any more than the discovery

of alternative systems of postulates implies the relativity of mathematical science to the human mind. If we view the situation in broader perspective human culture and progress show the unfolding of a single plan or pattern. The very richness and variety of ethical valuations may suggest to us, as Max Scheler emphasises, the reality of an order of value, the strata of which, are discovered through the application of different principles of choice, so that only through the co-ordination of different types of ethos can the whole objective realm of good and its relations be fully apprehended. The institutional and historical methods will coordinate the different economic systems before the entire objective world of utility and labour and the relations between scarce means and the persistent wants of man can be envisaged in their fullness. It may be that a consensus of an acceptable, universal objective standard of wealth and welfare will gradually arise by induction through a synthesis of the different types of ethos and economic systems in the world.

CHAPTER X

THE INTERACTION BETWEEN ECONOMIC AND POLITICAL POWER

The Theoretical Antithesis between Laissez-faire and Socialism

We have seen that institutions and customs, law and public opinion govern economic processes and transactions, and thus there is no possible means of divorcing the latter from the totality of social life as represented by the various kinds of institutions. In economic history we, therefore, find a constant interaction between the sphere of actual productive operations and the sphere of institutions and traditions, notably the structure of government as well as the context of civic and economic rights, which control and offer an easy guidance about the relations between the forces and incentives of production and the progressive conditions of social life. *Laissez-faire* originated and thrived in Europe in the 19th century as a reaction against the vexatious system of regulations by guilds, corporations and states that fettered industry and smothered economic motives at every step. The Anglo-French conceptions of the order of nature and of economic harmonies as well as the English Utilitarianism both contributed to establish a complete separation of functions between the economic and political institutions. Utilitarianism laid down that every man was the best guardian of his own economic interest, and that, consequently, the greatest happiness of the greatest number would best be promoted by complete freedom of enterprise and the restriction of the state to police functions. But the utilitarian principle later on, when the dead hand of Mercantilist privilege

and monopoly was withdrawn from the changing economic world, became the driving force of the agitation for various forms of economic legislation, beginning with the Factory Acts in the first half of the nineteenth century in England. The social reformist schools in England gradually built up a doctrine of state intervention following the teachings of John Stuart Mill. Herbert Spencer, who is the most famous exponent of evolutionary utilitarianism, yet maintained the glorification of individual liberty in his 'Man *versus* the State,' which is the last treatise that regards the state as chiefly a coercive and law-making and police organisation. As a matter of fact more and more of positive legislation was needed and passed as the capitalistic system of industry strengthened and extended itself with the progress of the century. The Fabian Socialists pressed for more and more of social legislation and a more equitable distribution of wealth, which would result in an increase of the sum total of the satisfactions of the society. To some extent they have also developed the idea of a collective utility, represented by the state, which adds an emergent satisfaction to the sum total of individual satisfactions. The Utilitarian doctrine of the greatest good, instead of justifying a completely individualist system, is here reconciled with the demands of a collectivist system. On the whole, however, the philosophical system of the Utilitarians and the distrust of "state interference," which had been the legacy of Classical economics, furnished the theoretical background of a sharp differentiation of the limits and functions of the state and of individual action. The result was that attention was focussed more towards plotting the orbits of political and economic control and the elaboration of antithesis of laissez-faire and socialism than towards readjusting and re-organising the means and patterns of control in the changing industrial situation. Even Sidwick's masterly analysis of the economic and cultural functions of government shows an unsymmetrical understanding

of the working inter-relationship between the economic and the political, and between politics and economics and the larger whole. A problem of state action, which is eventually one of social planning, tended to be discussed less in the light of social utility and more with reference to the theoretical proposition whether the proposal is eventually "political" or eventually "economic" in nature with assumptions that were not in either case warranted.[1]

The Hegelian theory of the state as the consummation of man as the finite individual gave a philosophical justification to absolutism, subordinating such essential and traditional implements of social control like the family and religion to the political organisation. Hegelianism, with such later philosophical products as totalitarianism, neglected like the older social philosophy the vital functions of the various groups and associations like the family, the guild, the rural community, the church and the social group, which mould the patterns of human conduct and aid the state in the maintenance of order. Thus for a whole generation a false dichotomy of economic and political management was encouraged, and a temporary conflict of public and private interests in a period when industrial structures and organisations were growing larger and larger and becoming monopolistic was twisted into a universally valid principle of social organisation.

The Relations between Economic and Political Institutions in Marxism

In Karl Marx we have for the first time the definite recognition that the economic and political aspects of society do not stand apart from each other, but that economic forces govern not merely the structure of the state but also other institutional forms. Marx laid bare the essential elements of

[1] Vide Merriam: *Political Power,* Chapter I.

the real process of government, which he clearly distinguished from the organisational aspects of the state, but like Hegel he also disregarded all those vital modes of association, which through the ages and down to present times have served as agencies of social control, and even preserve the liberties of peasant, middle, and working classes, independent of, or co-operating with, the state. Marx exaggerated economic interests and tensions of groups, and pointed out that when the class-war ends and society becomes class-less, the state will cease to exist. Like the other agencies of social control and management which we have mentioned viz., the family, the guild, the village community, the gentry or social group, the state has emerged under a variety of conditions for the purposes of collective life, such as the necessity of collective irrigation, management of common lands, meadows and pastures, common defence or common vendetta. Formerly guilds were offensive and defensive alliances, with their codes of law and definite rules for the overcoming of obstacles, and families, clans or village communities held themselves responsible for the actions of all their individual members.[1] Like these essential institutions, which exercised many kinds of social control that overlapped at many points, the state is much older than the economic classes in modern capitalism. Neither the state nor some of the other agencies of social control would disappear, when the present crisis in the social system is overcome, but would attempt new and unexpected fields of social integration and management, and exhibit new patterns of control. The social process exhibits continuous changes of competing control patterns, and in different phases of political or economic development political, economic or social group control becomes exaggerated. Just as a war, a famine or a pestilence may give complete

[1] Vide my *Democracies of the East: A Study in Comparative Politics*, Chapter VII.

authority to the state, so the economic stress, in the Marxian ideology, emphasises the area and intensity of economic control.

More than that. As man changes the face of the earth, his relations with fellow-men, according to Marx, change, and thus social institutions, including the state, become derivatives from the conditions of "the powers of production." As opposed to the "materialism" of the Classical school in which man's economic relations are controlled by relations between economic goods rather than socio-historical categories in which economic processes are treated as illustrations of impersonal, rigid laws, alien to man's motives and ideal values, Marx presents the doctrine of Realism. Developed as a reaction against Hegel's Idealism, which sees the world including civil society as the embodiment of the universal, in which particular interests merge and men seek their self realisation and freedom, Marx showed the world as governed by man's relations to nature, by his economic power which is objectified in the social relations of production and the historic process. Marx is, therefore, no materialist nor fatalist; for neither "the powers of production" could be called "material," nor the theory which attributes the historical tendency of capitalistic development to the interaction of political, psychological and legal relations of the day. Social institutions, according to Marx, show a definite pattern in the course of their evolution in organic correspondence with the economic forces, but man can within limits remould them. To quote his words, "Man himself is the basis of his material production as of everything else he established. All institutions (Umstände) in which man, the subject of production, expresses himself, modify more or less all his functions and activities including those concerned with the production of material wealth-commodities. In this connection it can easily be proved that all human relationships and functions influence material production and exercise more or less of a determining

effect upon it."[1] Or, again, "Man not only effects a change of form in the material on which he works, but he also realises a purpose of his own. The process demands that during the whole operation the workman's will be steadily in consonance with his purpose."[2] Marx's phrase 'productive forces' includes not only external, yet plastic factors, but likewise skill, science and technology, and thus the stress of economic organisation and technology in social evolution indicates a tendency which is not opposed to scientific methods. Indeed, Marx's conception that man starts, regulates and controls the economic forces, and by so acting on the material at the same time changes his own nature, has made his doctrine of the economic interpretation of history somewhat acceptable to the modern mind. Accordingly, Bertrand Russell describes the Marxian doctrine of class activity as instrumentalism or pragmatism.

The Notion of the Universal Validity of Class Struggle

In Karl Marx class struggle represents the only method of advancing from one social order to the next. By means of class action the "moments of opposition" are to be transformed into "phases of development" in the dialectical process of history. And this would involve political revolution ending in a change of the character of the state which no longer becomes the executor of the interests of the dominant social class. It is quite clear that so far as change in the social order through the class struggle is concerned, the political potentialities of the class depend upon a wide variety of social and economic circumstances. Within the same country kinship, localism, patriotism, religion, race, and social or cultural similarity arouse group loyalties which overcome class consciousness. An abundance of natural wealth and

[1] Marx, *Theorien Ubber deu Mehrwert,* Bd. I, p. 388.
[2] *Capital,* p. 198.

free land, and a high rate of wages and standard of living for the masses also prevent the growth of class opposition. Education, general and political, organisation of labour and of voluntary groups of diverse functions and political groups of parties may cut athwart class divisions, mitigate class antagonisms and prevent the transformation of class struggle into a social revolution. All these are not simply and unequivocably determined by economic relations in the history of a people. History is too full of socio-religious conflicts, dynastic feuds, trivial events and even accidents in the lives of individuals which have determined the course of civilisation. In Marxism the sequence of history is chalked out too definitely by the wish of the proletariat.

While Marx's sociological economics gives too simple a view of the relations between the organisation of economic forces and politics, his analysis conceives of a universal march of history according to a route which is the same high road for all regions and cultures. All roads do not lead to the Marxian paradise with its inevitable class conflicts. Karl Marx had a clear insight into the organic character of culture and its physiologically determined structure and functions, but neither "economism" and class struggle have been the universal and dominating forces in politics in all ages, nor has the development of history uniformly followed a logical course, stamped by the dialectic of class struggles. Marxism, of course, has been guided here by the Hegelian conception that logic rules life. But the social history of the West European environment, which has given birth to Marxism, is responsible for the unalloyed belief in the permeation of the entire social structure by the class struggle, and its irrational product, class consciousness.

Contrasted Ideal Types of Polity, Monistic and Pluralistic

Comparative studies of political institutions by anthro-

pologists and sociologists have shown that in cultures which originate from forcible conquest and expropriation of the autochthonous peoples, mostly peaceful agricultural communities, by nomadic peoples, social opposition and coercion dominate the entire structure; and not merely land-holding and social stratification but also the state manifest class dominance. On the other hand, where cultures have not been welded by the sword, but have grown peacefully as a result of a gradual process of absorption, accretion and assimilation, the organisation of society hardly exhibits class struggles and social repressions. The state in the former social order becomes a far more powerful organ as the engine of class repression, while in the latter social order we hardly see the state omnipotent. From this point of view the Western State may well be described as of the Monistic type, as opposed to the Pluralistic type of states in India and China in which various groups and communities function separately and often independently of the state.[1]

The difference between the Monistic and the Pluralistic State is fundamental in origin, methods and outlook. The Monistic State arose from conquest and domination, and its institutions were on a military, slavery or expropriation basis. The Pluralistic State arose from an assimitation and cooperation of different units that yet retained their individuality, as in certain forms of modern federalism. The Monistic State works on the assumption of class selfishness and conflict. The Pluralistic State bases its law on a conception of duty, varying with different individuals and groups, according to the capacities and organisation. The Monistic State decentralises and subdivides on a territorial basis, while the Pluralistic State does it on a basis of both local and functional groups which cohere in a loose federal structure. The Monistic State aims at getting under its own control

[1] The pluralistic principle, in a modified form, was active in the formation of the ancient city-states of the Mediterranean.

the whole life of the individual, and suppressing any group organisations that might savour of imperia in imperio. The Pluralistic State welcomes the different local and functional organisations, gives them almost complete autonomy within their own spheres and restricts its own sphere within narrow boundaries.

In India the village community is an example of political pluralism and functionalism pushed to the extreme and as such has endured for thousands of years. It represents a self-governing social structure in which the opposition of races, classes and religions has in large measure been resolved on the basis of cooperation in agriculture, irrigation and *panchayat* government. Nor is the village community an isolated unit in the body politic; for examples of local shadowy organisations representing units of groups of 13, 24, 27, 42, and 82 villages still survive, reminiscent of attempts at indigenous federalism in a culturally homogeneous region. Similarly the occupational groups or castes in India are in a certain sense local federations on a minute scale; some of them are linked with regional federations as groups having the same social standards of action and of ideals. Castes easily merge themselves in guilds and lay down regulations in the interests of particular crafts or industries. There are also guilds which comprise members of different castes united on the basis of occupation but the guild in India does not base itself merely on economic interests and functions. It represents a division of functions and associations which result from a similarity of modes of social living and culture and it comprehends, therefore, the entire social life of the castes. Various guilds unite with one another and form a compact or loose federation, comprehending the different classes of artisans and apprentices, middlemen and general merchants, and exercising their authority on all social and economic matters over a wide area. In China there is the artisans' guild which resembles the Indian artisans' caste in many ways, but it has

not reached a highly complex development nor shown the elaborate social stratification that the latter represents in India. Still the workers, both masters and apprentices, form a multitude of small groups, each in their own locality. They meet occasionally, when entertainments are arranged for all artisans belonging to the guild. Each guild has a president, a secretary and an executive board, as the city guilds have in India. All guild matters are brought up before these heads, and, if the latter think it worth while, are submitted to the whole body. In China as well as in India there is also the merchants' guild. It is the collectivity and solidarity of these trade-guilds that answer for the stability of the Chinese market and hence for social peace. They check the competition that would, in the long run, injure all the economic classes. As in India, their function is to settle disputes arising between their own members, and controversies with other guilds. Like many of the Indian guilds, they fix the rate of exchange, the rate of interest and the date for the settlement of accounts. In addition to these services they provide, as do the Indian guilds, public improvements and strive towards the internal development of their trade. Bishop Bashford's description of the efficiency of the Chinese guilds is applicable to the guild organisation of India. "The democratic management of industrial and economic affairs through the guilds, and the democratic origin of industrial and commercial law, furnish the historic and economic basis for the democratic character of Chinese civilisation. Indeed, so firmly is the authority of the guild established in settling commercial and industrial disputes, that the government recognises guild rules in all trials, giving them the rank of statute laws. In China, the guilds or voluntary organisations, combined through their chief representatives, frequently discharge the functions of a Board of Trade, a City Council, a Board of Charities and a Board of Arbitration—all with semi-official powers." In the East, a strong and rich middle-

class has existed in the modern cities only, where the workshop system has developed out of a more specialised organisation of the handicrafts, producing common goods for a wider market. In Japan, the communal bond has been very much weakened by the old feudal system and by the new centralisation, an outcome of the impact with Western powers, which has compelled her to accept militarism and industrialism, however uncongenial they may have been to the temper of the people. But in China and India, whether in the more or less autonomous villages or the self-governed industrial and commercial guilds and associations, communal habits and traditions are very much alive as potent forces of economic renewal. The phenomenal success of the cooperative movement within a decade or two in India and of the great mercantile guilds in China in organising her commercial credit may be quoted as instances of the strength of their old and essential communalism. Group organisation in the West takes the form of syndicalism, guild socialism or sovietism; in India it is rather a form of regionalism, and a class-cleavage which is not in its origin economic. Groups belonging to the same neighbourhood, groups belonging to a particular social stratum, groups united by a community of pursuit or interest form what is virtually an autonomous unit, subdivided it may be, and even mutually encroaching, while units unite in a loose federalism in which the central authority is a convenience rather than a state.[1]

The Origin of Capitalism in Conquest and Monopolisation of the soil

L. Glumplowicz was the first sociologist to develop a sociological conception of the state. According to him the state is the outcome of warlike subjection of one tribe or people by another and the class distinctions arise in conse-

[1] The Glasgow Herald, reviewing *Democracies of the East.*

quence of such subjection. This theory has been recently propounded in a modified form by Franz Oppenheimer in his remarkable book, "*The State; its history and development reviewed sociologically.*" Here he has sketched the origin of the state from the conquest and subjugation of one people by another, and mentioned the use of open force and shameless violation of the rights of the peasants in feudal Europe in the successive periods of migration and conquest. During the fifth century, the state developed in Central Europe, as the tribes merged together to form larger groups at the time of the great Hun migration. The fear of the menace of the Huns linked many tribes together with one single sentiment and made it possible for disconnected people to join together against a common danger.[1] The creation of the state accompanied in Europe the development of what Oppenheimer calls "the feudal area." This was characterised by two institutions, the politico-social institution of the differentiation of the classes and the economic institution of the monopolisation of the soil by the nobility in the juristic form of huge demesne estates which were contiguous and filled the land; a monopolisation, in other words, which prevented access by the mass of the people to the natural means of production, the land. Even when the danger of foreign incursion and conquest had subsided later, the new large social organisation retained a central authority and other military and feudal institutions and made havoc with the rights and privileges of peasant populations. The free peasantry of Germany were put through the process of expropriation and declassification at least three times. Once it happened in Celtic times. The second overthrow of the free peasants of the old German Empire took place in the ninth and tenth centuries. The third tragedy of the same form began with the fifteenth century, in the countries formerly Slavic, which

[1] Ross: *Principles of Sociology*, p. 618.

they had conquered and colonized. The peasants fared worse in those lands, in the "republics of nobles," where there was no monarchical central authority, whose community of interests with their subjects tended to deprive oppression of its worse features. In England and in France the old Teutonic village community gave place to the medieval manor as a result of Norman conquest or of Frankish or Norse occupation, but this after a long and bitter contest. In the former country the king of England, through jealousy of the great barons, took care, by means of his judges, to protect the customary rights of both the freeman and the villain; both of whom, so long as they performed their services, were entitled to hold the enclosed land, and, what was equally important to enjoy the use of the open land or waste. The king's property was not distinguished from his sovereignty at the beginning but gradually the idea of property in land was separated from the idea of sovereignty by commuting the obligation of rendering the military service to the king into the obligation of making money payments to him. The king substituted his own army for the retainers of his tenants and made his sovereign power indisputable, but the tenant got a clear title to his land and could buy or sell as he saw fit. By sending his circuit judges to hold court in the counties, Henry II laid the basis for the common law.[1] The freeman had the right to use the meadow and waste but this was interfered with when the great land-owners became dominant in England. The Enclosure Acts had much the same effect in England as the emancipation of the serfs had in Russia; they made the lord the actual owner of the lands hitherto enjoyed in common by his tenants. The obligations of the vassals and serfs to their lords were many, and in most instances they were highly burdensome.

[1] Commons: *Legal foundations of Capitalism.*

Agrarian Capitalism and Social Revolution in Europe

Within the feudal area there gradually grew up, however, the trade and industry of the towns, and the Third Estate came into being. But this development was everywhere checked and hindered by the feudal institutions against which the Third Estate at length was compelled to take up the cudgels. In the revolutions of 1649 in England, of 1789 in France, of 1848 in Germany and of 1905 in Russia, victory was achieved, and one of the two feudal institutions, the juristic differentiation of the orders and classes, was done away with. But the second one, the monopolisation of the land, remains. And therein lie the roots of capitalism and divergence of interests of the economic classes. Basically the large landed proprietors still retain their old feudal rents. George Friedrich Knapp mentions the great manorial agricultural estates (*Rittergutsbetriebe*) eastward of the Elbe as the first capitalistic undertakings of modern times. In the big demense estates the peasants were exploited because they were legally excluded from their natural instruments of production, their land, and thus the knights, the feudal warriors, were transformed into modern agrarian capitalists.[1] Agrarian capitalism which introduced social revolution and sharpened class opposition in Europe was the beginning of the process which commercial industrial capitalism later slowly but hesitantly followed.

Both in England and France commutation of labour-dues for money payments contributed to the peasants' liberation, and also many serfs gained freedom by flight. Among the seigniorial rights in France were included the *taille*, the *corvee*, the *bonalite*, *gite*, (or entertainment) and even limited military service. Such rights existed in North-East France until the revolution of 1789. Throughout Europe, along with the gradual emancipation from vexatious interference

[1] Quoted by Oppenheimer in Tendencies in Recent German Sociology, *The Sociological Review*, October, 1932.

promoted by economic and social evolution, there was much emancipation directly promoted by the state, and in France the Revolution created her petty proprietorship. But the largest portion of Europe yet continues to be a region of great estates, cultivated by hired labourers, and interspersed with only an occasional small holding. Such are the vestigeal remains of the medieval manor, which is related, according to one school, to the Roman *fundus*, or great estate—and yet more to the *saltus*, or great estate with a special jurisdictional character of the fifth-century Italy, Spain and Gaul. An opposing school believes that the manor is Teutonic, and has arisen spontaneously in the various countries occupied by the Germanic peoples. In either case the origins of the manor are connected with social and economic conditions arising out of war and conquest. Thus began "capitalistic agriculture" which established in Europe the social distance between lords and knights and the peasants and retinues. As serfdom was abolished between 1789 and 1870 a class of free labourers emerged, but these were subjected to intermittent processes of expropriation and expulsion. As the agricultural proletariat migrated in large numbers to the thriving towns, they found themselves face to face with another kind of monopoly, the "capitalists" owning the tools of production and machinery. Marx viewing the experience of England as typical refers to the enclosure movement, the breaking-up of feudal retinues, the stealing of state domains and the passing of the yeomanry. Thus the town industries came to be supplied by a mass of proletarians, entirely unconnected with the corporate guilds and unfettered by them. Werner Sombart does not agree with Marx in his emphasis of enclosures and on the closing of monasteries as events of far-reaching importance, but refers to several other very potent factors. The increase of population beyond the point of adequate support for handicraftsmen and peasants; the gradual impoverishment of individuals

normally self-sustaining; the stagnation in trade which occurred in the early days of capitalism; the freeing of the serfs; the dismissal of great bodies of retainers; the oppressive burden of taxation,—these are some of the contributory causes of the rise of a new proletariat class, according to Sombart. Different countries entering upon the stage of industrial capitalism, indeed, exhibited some special features connected with the increase of the proletariat, as for instance, the increase of population and its shifting from the south to the north and from the village to the city in England, the development of intensive agriculture which displaced agricultural labour in Germany, and the emancipation of the serfs in Russia. In the first phase of the Industrial Revolution (1760-1795) the proletariat group was small relatively to demand for labour in the first factories, and wage rates for agriculture fell while the wages of industrial workers rose. But soon the increase of workingclass population in the towns and the continued migration of workers who abandoned trades and occupations that were passing out or were being transformed brought down wages and standards of living.[1] On account of the tremendous city-ward drift wages came down to the bare minimum of subsistence and similar other phenomena of modern capitalism gradually emerged. Thus throughout Europe the industry of the town took on the character of capitalistic exploitation. Even in America the migration of enormous masses of exploitable labour from the feudal lands of Europe altered the character of industrial institutions even under a constitution which gave freedom and opportunity to all.

Agrarian Communalism in the East

India and China are, on the other hand, countries where peasant proprietorships were left undisturbed through the epochs. Village communities were founded mostly

[1] See Briefs: *The Proletariat*, Chapter VII.

by agricultural tribes and clans. The distinction between superior landlords and other people on the estate did not develop. The ownership of villages by peasant tribes, castes and families, claiming also waste lands in which each peasant family has rights of grazing and cutting fuel, and the communal management of woodland, pastures and irrigation channels have survived for centuries. The agrarian distribution on the open field system based on the solidarity of tribe or clan was originally conditioned by kinship but now strangers or outsiders have been introduced who have acquired similar rights in the waste and pasture as the original settlers through purchase or through their having been jointly assessed in payment of revenue in old or modern days. The maintenance of common pastures, irrigation channels and rural public works or the shaping of village custom and village husbandry by the *punchayat*, India's ubiquitous organ of rural self-government, are not confined to the North Indian villages with their more or less complete clan solidarity; these are also to be found in the South, where the larger ethnic admixture has evolved a more complex village communal system. Everywhere in India a strong village self-government exists side by side with caste government. We have also in India a theory of ownership of the land not vested in either the landlord or the state but divided among a number of coparcenary interests, the state obtaining from the land a tax in lieu of protection, and not the economic rent. Not the military-feudal but the autonomous pluralistic type of polity governed not only the economic and property relations in the villages but also the organisation of industry and trade in the towns. Internal troubles destroyed in many cases these democratic communities, and villages came to be acquired by local headmen, managers and revenue-farmers. Overlordship by adjoining *thakurs* or chiefs was freely accepted, and not infrequently invited, by local cultivating bodies. The vicissitudes of war and migration have

often obliterated any traces of village fraternity, while the ignorance of the early British settlement officers often destroyed the communal principle by vesting the ownership in any persons who became responsible for the revenue in circumstances when only such persons should be recognised. But whether villages are relics of former kingdoms or chiefships, or of democratic clan settlement, whether their composition has now become heterogeneous on account of the influx of new settlers or their communal tenures have been obscured by the importation of the Western idea of individual proprietary right, the juridical traditions of caste government and the economic traditions of the village community and communal tenure have survived, and are still vital forces in the village polity. The village in India also has played the historic role in bringing about amity and assimilation between stocks and peoples possessing different standards of culture through the evolution of the caste organisation. While in Europe the juristic differences between social orders and classes in the past indicated the elements of conquest and coercion in the make-up of culture, caste in India represents a working system which has assured to each racial element autonomy, and secured collective discipline and mutual tolerance. Caste discipline and self-government represent a *modus vivendi* of peaceful social absorption and assimilation. This is also evident in the organisation of handicrafts and industries in urban society.

In guild history in Europe, especially in some of the German cities, there has been witnessed a good deal of class feeling and struggle. In the first place, the crafts were organised bodies struggling for corporate privileges, and eventually they purchased or wrested by force from neighbouring regions a substantial amount of independence. In the second place, there was a tendency to a new kind of oligarchy based on distinction between master artisans and the increasing class of journeymen. Thirdly, the craft guilds

came into conflict also with the merchant guilds, and the mercantile oligarchy no sooner developed than it found itself face to face with a demos of artisans organised in craft guilds, whose long struggle was like the Roman struggle between patricians and plebians. In India, where society was not organised after the feudal pattern, the development of the guilds partook of the nature and process of fusion and absorption, giving to each group its rights and privileges. These were protected by immemorial custom and usage which the courts recognised and invested with the sanction of law. In the Indian guilds the wage-earning classes were never excluded, and, indeed, their admission to full membership discouraged the development of that distinction between employing masters and employed wage-earners which was at the root of mutual jealousy, conflict and disintegration of the Western guilds. In the East generally the guild regulations were not exacting, prohibitions and penalties were not harsh and frequent, nor were they imbued with any spirit of feudal or commercial exclusiveness. On the other hand, they helped to confer dignity on the artisans and workmen. The wage-earner was given a voice in the government of the city or ward to which he belonged. He could attend the meetings which discussed questions of temple management and the maintenance of schools, alms-houses and other public institutions. It was thus due to such guilds that in most of the cities in India the triumph of functional democracy was confirmed, and there were many examples of resistance organised by the merchant and artisan classes against the tyranny of kings or nobles. Thus there are many parallels to the movement which, in the middle of the fourteenth century, ended in the organisation of the communal government of Paris, and in which the support of the trade corporations sustained Etienne Marcel in his noble endeavours.[1]

[1] Nys: *History of Economics.*

Social Evolution Outside the Ambit of Politics

It is clear that the organisation of the Monistic State from nomadic times to the present day in Western Europe has in large measure made political struggle a class struggle and vice versa, and in fact the original, functioning social and economic situation in Europe defined the property relations and social classes, such as the feudal lord and serf, master and wage-earner, ranged in ancient and sharp opposition to each other. The mutual jealousy and conflict, characteristic of guild history in Europe, and the spirit of commercial or feudal oligarchy which the guilds supplanted have penetrated so deeply that these dominate the whole structure in modern Western Society. Mannheim complains that contemporary society in Europe exhibits the use of coercion, decisions reached and backed by force and the public integration of sadistic instincts. All these he traces to the sociological cause that conquest and coercion built up the culture in the past. "This element of coercion penetrated so deeply into the otherwise pacific peasant society that it dominated its whole structure. It is because this contradiction, which underlay the original social situation, has never, from the earliest times until today, been eradicated that contemporary society is still so very antithetical in character. Calculation and compromise are the main forces which regulate the process of production, distribution and exchange in our society; but in the last analysis the 'ultima ratio' both in our external political relations and in our final decisions in internal politics, is *force*."

Viewing the origins and development of European society in this light as only a partial phase of universal history, we cannot postulate class conflict as the universal key to economic and cultural development. As a matter of fact Marx himself envisaged a final resting place for society in which there will no longer be classes or class antagonism

and social evolution will cease to be political revolution. It is clear that social groups can be and are dominated by other habits and motives besides the economic, and that social evolution can pursue and has pursued a course outside the ambit of politics. This is at least the lesson which one may derive from a study of the mechanism of social control, social stratification and property relations in India and China.

The Transformation of Economic Classes into Cultural Groups

Marxism has not only seen culture with the red-coloured spectacles of class consciousness but has also left unsolved the most vital question which an objective social psychology must now take up viz., how to establish a functional connection between the principle of growth in a class and in the society and the reciprocal mechanisms of control. A class can only function in a social milieu of economic struggle. In an organic "civil society," in an economic organisation, which is an integral whole, the class ceases to function and ceases to exist. A class is thus an episode in man's adaptation in a given economic and social situation; and for all human societies the economic scheme of class divisions cannot be postulated as an objective basis of opposition and conflict. As a matter of fact, as Weber and Schmoller have shown, the criteria of social gradation have changed from epoch to epoch in medieval and contemporary Europe.

No doubt the great pillars of contemporary Western European society have been the state representing the general will of the community, on the one hand, and individual freedom and initiative, on the other. Both these, however, have today failed to secure social justice. The same individualism which lies at the root of progress, efficiency and enterprise now meets its logical counterpart, the class consciousness, which has become its chief enemy. It seeks to plan economic

life in such manner as to imply a complete surrender of individual initiative. It captures the mighty political and industrial machinery to order society in the interest not of the community as a whole but of the proletariat. In the struggle between individualism and class planning,—either the fruits of a century of liberalism and of democratisation of society are swept away, or dictatorships arise, taking advantage of the political and economic uncertainty. In some countries the supersession of representative government has been made easier due to the unwillingness or incapacity of the people to take responsible share in local and functional self-government, the ambition of leaders and the chronic fear of proletariat upheaval. Dictatorships are today backed by the masses, who cannot shoulder the responsibility of a rational democracy in industry and politics, or are intimidated into submission, and can with impunity not only coerce the elite of society but restrict some of the basic freedoms and rights of all citizens.

Class *versus* Social Planning

The contrasted tendencies of the initiative of the individual and power of the state, which have built up European culture need to be reconciled in the interests not of class planning but of a rational and progressive participation of all economic strata in the fruits of culture. A collectivistic order, achieved not through class conflict and social revolution but through devolution and decentralisation, seems to offer the solution of the present crisis. The development of occupational groups, professional brotherhoods, cooperatives and vital modes of association, serving as links between the individual and the Great Society, and as nuclei of self-government and economic and civic affairs in smaller units, can temper the tone of class-ridden society and favour a new ethic of service and solidarity. Guild socialism, syndicalism, industrial copartnership and cooperation are some

interesting attempts at reconstructing industry and society as organic wholes. Closely related to these are the recent trends towards regionalism, functionalism and political pluralism in social theory. The Monistic theory of the state is now qualified by the introduction of regional autonomy and decentralisation and the exaltation of function in self-governed workshops, corporations, professions, cooperatives and voluntary bodies of a wide variety of services. The central idea of Anglo-French democracy is that the people should be active citizens and participate in the work of government, and the form in which this is now expressing itself is in the devolution of Power to voluntary organisations which are cooperating with the statutory bodies. While in the past there were strong elements of community life, especially local, there is now in the democratic countries a much wider community consciousness developed largely through the social services in which voluntary associated effort has so often pioneered the way for governmental action. "The cooperative commonwealth of statutory and voluntary bodies, central and local," observes Adams, "is developing before our eyes and in none of the great industrial states of the world has it been carried so far as in Great Britain." It is still far from its full expression he remarks, but "the associative principle is enabling a great variety and richness of community effort to advance the standdard of well-being, is bringing about a breaking down of class divisions and the growth of good neighbourliness and is increasing the power and usefulness of public opinion."

More and more there is also the recognition that democratic government and autocratic system of industrial management are incompatible with each other. The aspiration of modern economic planning is to avoid bureaucracy and top-heaviness by breaking up industries into sectional or regional units and linking these with regional governing bodies of a civic character. In the narrower spheres of action

there can be an easier integration of divergent economic interests in each self-governing industry, cooperative, or guild, while the more decentralised the organisation, the greater will be the opportunities for active citizenship and training in leadership and responsibility. It is in this manner that the classes can be gradually transformed from opposing interest groups to cultural groups based on distinctions other than those of wealth, rank or political power. No longer would the masses take their cue from the state, which has originated in coercion and expropriation, and pursues an irrational policy of depriving other classes of the fruits of their toil and means of livelihood. For the state itself would be moralised and socialized through the functional and regional idea that pictures the community as theoretically and programmetically an organic whole. This is far different from the Dictator states in Europe which now completely suppress the fundamental rights of individuals and repudiate those values which alone justify their coercive power.

On the other hand, these States have adopted many truths of socialism and built up an economic organisation not on the basis of functional and regional associations but centrally planned and extended over a wide area. The more extended the sphere of governmental action in a collectivistic regime the more imperative is the necessity of legal protection of the basic rights and freedoms of individuals which have been sacrificed in the interests of either economic security or political power. This has been disregarded in the totalitarian countries. No doubt the system of 19th century capitalism can no longer endure the challenge of socialism. But the new economic order can be built neither by the class consciousness of the proletariat nor by the vested interests of the financial and business groups that control the Empire states on the basis of international finance. It will implement a sort of collectivisation, but more tolerant, free and progressive than in the Marxist state. The bureaucratic leviathan

of the modern revolutions in Europe has no doubt arisen as a reaction against the failure of economic liberalism to control and regulate the unjust and unruly economic environment. But besides the Marxist state which abolishes ownership of every kind and the Fascist state where the community itself is regarded as the private property of the bureaucracy, it is possible to develop a system of private organisation under public supervision and control, which, if the experience of the Western fringe of Europe is any guide, gives far more hope of better social conditions than any bureaucratic extremism.[1] While in the economic system a variety of small self-governing workshops, units of industry, regional associations and co-operatives could largely abolish class cleavage and wasteful profit-seeking it is possible through their union and federation to obtain the advantages of large scale economic organisation which must be the basis of the modern socialistic state. It will then be easy to combine the freedom of the cultural group which is the heart of the nation with economic efficiency, security and stability. Such a national state no longer controlled by class feelings and interests could participate in organising the world through the instrument of federation, an instrument successful in various ways, in the United States, the U.S.S.R. and Switzerland.

In the East the programme of planning lies through the construction and extension of indigenous group organisations, and vital modes of association, village communities, castes, cooperatives, trade and craft guilds, professions and gentry, which, in the past, have proved so flexible in other matters that it does not seem too much to hope that they may also adapt themselves to nationality and to large-scale economic organisation on socialistic lines. In Europe new forms of communalism, developed on the basis of individual

[1] See article on the Liberal Tradition, *Economist,* December 30, 1939.

freedom and competition as opposed to coercion, as in the totalitarian regime, and in line with the fundamental democratic traditions of social and political life, will be seen to satisfy the claims of individualism by giving legitimate scope for individual initiative, and at the same time secure efficiency and security when the social and educational adaptation to the new economic order has sufficiently advanced. Class consciousness will not be, then, the urge to effort and power; but social feelings, now restricted to a small minority, will plan the economic structure and permeate the entire society. The world order will be shaped not by class antagonism but by integration of economic interests; but unless this is achieved by the spontaneous social co-operation and associated virtues of individuals, the national state cannot delegate part of its sovereignty to a wider state grouping, and cease to demand periodically the death of its citizens for the sake of either national aggression or for the aggrandisement of capitalistic and business interests that equally defeats the process of collectivisation in the world. The achievements of modern science and transport in eliminating distance and of modern industrial and financial organisation in accumulating enormous economic and political power alike forestall the termination of a regime of separate sovereign states and of unrestricted business organisations competing for profit and monopoly. But the nature and pace of collectivisation depend on the traditions of economic and political freedom and of voluntary associated effort in local industrial and functional self-government in different countries, and on the mutual pressures of sovereign states in world politics.

CHAPTER XI

THE ORDER OF VALUES AND RIGHTS IN ECONOMICS

The Gradation of Economic Values

There are two important features in methods of analysis which are contributing to the present *impasse* or crisis in the social sciences. One of these is that the abstractions and categories in economics and the laws of the market, which explain conditions of change and equilibrium in the economic world, tend to overstep their jurisdiction and encroach upon other fields and social relations. The autonomy of the world of economic values for special treatment by the earliest and most important of the social sciences has been of great value to the interpretation of social behaviour. In social development the laws of supply and demand apply to a larger and larger field of social behaviour. But this autonomy has been reached not without some dangers. A critical analysis is now necessary both of the nature and transformation of economic motives instead of assuming the simplified economic man and his inflexible isolated drives. We all know that in economic behaviour both instincts or desires and habits are involved, that these are blended with and over-laid by non-economic instincts and habits, and that the behaviour in question is the result of the structure of their combinations in the pattern of society. The description of the economic field as one of logical action misses the important fact that what we are concerned with is behaviour and its results rather than rational thinking. The new social psychology with its stress of the fusion of instincts and desires as forming the roots of economic behaviour,

and of social habits and standards guiding behaviour when alternative channels are open, seeks to correct the treatment of economic behaviour as a force in mechanics, or, again, as the outcome of a deliberate judgment of the pleasure pain calculus. Man's economic behaviour cannot be analysed into a simple compounding between a well-defined pleasure unit and his labour or disutility. It springs from instincts and desires that combine differently, and some of which may dominate giving its trend and direction. One or more of these appears in the fore-consciousness while the others remain latent and seek fulfilment through the former. The question for us is how one of these instinct groups may be distinguishable from others as especially economic.

In the complex effort of man to satisfy his natural instincts and instinct derivatives he finds that he has to face the conditions and limitations set by the physical world. This fact of limitation for himself in accordance with the degree of its rigour sets up a scale of values and regulation of relations of men to one another, which furnish basis of all later and developed economic values.

The comparative scarcity of the different gifts of nature is the cause of the first gradation of economic values. But these values are transformed into full-fledged economic values when they are the felt desires of a group or community and come under its controlling activity. In other words, the individual desire or behaviour acquires specific economic significance only when it coalesces and corresponds to the similar desire or behaviour of the community. The pleasure that is experienced by the individual when he eats fruits, collects shells, makes a bow and arrow in a solitary island, and a host of other pleasurable experiences, more or less analogous, which have no connection with the group, are outside the circle of economics. The forces and forms of nature become of interest to economics in proportion to the immediacy of their connection with restricted and regulated social use. When these

are limited in supply, and, serving as stimuli upon the group, induce appropriate reactions thereto that are fairly uniform among the members of the group and ultimately settle into uniform habits, we are introduced into economic phenomena, because all its members cannot have equal or similar satisfaction from similar behaviour at the same time and place. Indeed, it is the constant limitation set by nature and the externally regulated cooperation of men on individual behaviour that give the basic factors in the determination of economic value.

Nature sets a limit to the amount of food supply available, and all the members of a group desire the same quality of food. Accordingly, the effort of the individual for food-seeking is invested with an economic significance. Tools and clothing, pastoral and hunting grounds, are limited in supply; their appropriation is both encouraged and controlled by savage society. Thus the acquisitive impulse partakes of an economic interest even in primitive communities. The physical limitations restrict the materials of art, decoration and construction, while society stimulates construction in a particular style or in a given set of materials. Hence has arisen the economic importance of the particular impulse to construction. The impulse of self-assertion comes to possess an economic import and the behaviour of the master-craftsman becomes economic because the capacity for representing in one's own consciousness the probable reaction of the group to one's own scheme in detail is found in unequal degrees among different members of the group. Even sex has an economic significance. Nature establishes a disparity between the proportions of sexes, and society restricts the field of marriage or lays down rules of legitimate sex satisfaction. There thus arises the institution of marriage by purchase, etc., which assumes various guises in civilized society. Similarly, any other desire, which has the same trend as a similar desire of the group has, and yet

the fulfilment of which is restricted by the physical world or indirectly by legal norm and group standards, gives rise to economic phenomena. All desires stand somehow related to the external environment, with its limited means and opportunities; as they enter into the sphere of limitation and external regulation of behaviour, they create and maintain economic values. Thus different desires blend and integrate as a rule in the social world. Spiritual and material interests, even of contradictory significance, mingle in economic values due to the flexibility of human nature.

The Collective Scale of Values in the Socialistic Community

It is important to note that in the collectivistic regime scarcity will be of little significance for the producer and consumer, and that both the channels of effort and satisfaction become different. The group here is not preoccupied with the problem of scarcity of goods and services which the supreme economic council solves. Man's economic behaviour here is accordingly less influenced by limitation of resources than by the collective scale and ordering of values and regulated production, which aims at such apportionment of economic effort in different lines so as to bring about the relative abundance of all goods and services in respect to general need. It is not the have-not, the unfortunate or the unwise, whose subjective utilities govern prices but the social judgment, mode of regulation and administration of the expert. The group here is primarily interested in maximising values in use. It is the vital requirements and satisfactions measured in the case of food in terms of calories, proteins and carbohydrates and in the case of other commodities by their ethical or aesthetic attributes which determine values. In the collectivistic regime relative scarcity might deflect planned, collective production, but not the individuals' scale of

utilities, which comes to be dominated by the group standards.

The Conjugation and Differentiation of Values

In the individualistic economy in every case of economic interest and value, we find that man's dependence for the expression of his instincts or desires on the limited resources of the environment influences the behaviour of the individual much in the same manner as the social and legal norm. With the important part played by customs and institutions, by group fashions and standards of life and expenditure as well as by ethical standards and conventions in economic behaviour, we cannot think of the economic interest as confined to a particular effort or experience or without reference to other individuals' economic interests. Man's net satisfactions over and above efforts, which we may define as the object of economic behaviour are not only circumscribed by group action, but their standards are also set by the group. They become wealth only when they are incorporated within some particular legal framework of freedom and property.

It is the community which not only transforms its stable satisfactions into wealth by incorporating these within the legal order, but it also integrates, organises and coordinates aesthetic, intellectual and ethical values. In the social order ethical values claim a priority to economic values. It is the human nature which is the seat of the differentiation of values, and where a choice between alternative values has to be made, it comes out of human nature which is at every stage a unity. Without an inner unity of self, man will fail in his adjustment to his environment. With a balance and poise of the various values, he achieves a unique distinctiveness and autonomy of his personality, and enriches his give-and-take with his environment. Further, economic, aesthetic or moral values "conjugate," aiding each other.[1] Ethical values become aids to economic efficiency taken in a mechani-

[1] Bougle: *Evolution of Values.*

cal, technological sense. Honesty is a moral trait, demanding a characteristic type of a character and effort, but honesty is often the best policy in "the ordinary business of life." Courage, enterprise, intellectual interest and foresight are the support of a vigorous, progressive economic life. Economics has, therefore, no special relation to material satisfactions or to egoism. Human life exhibits discontinuously changing levels of interests and efforts. Man is faced with a variety of problems of adaptation to the group and to the environment. A problem becomes economic when behaviour most frankly faces costs in terms of satisfactions; it becomes ethical when such satisfactions implicate human relations. When the former presses on man's attention, behaviour is economic; when the latter, it is ethical. Economic relations are affixed to goods and their relations; moral relations are affixed only to persons. But man's behaviour is a single whole. "An economic datum," as Croce observes, "does not form an antithesis to a moral datum; but is in the peaceable relation of condition to conditioned. It is the general condition which makes the rise of ethical activity possible. In the concrete, every action (volition) of man is either moral or immoral, since no actions are *morally indifferent*. But both the moral and the immoral are economic actions, which means that the economic action, taken by itself, is neither moral nor immoral." Moral values pre-suppose economic values and relations, but their content lies on another plane. Nicolai Hartmann gives an apposite illustration. Honesty, if it is a moral value, necessarily pre-supposes the positive worth of material goods. It is inherently dependent upon the latter. But the worth of an honest act is plainly of a higher kind; it is independent of the economic sphere of values; it does not increase or decrease with the value of material goods. The relation between the economic value and the higher structural value is thus set forth. "The higher value" observes Hartmann, "is never conditioned completely by

the lower. Its dependence is not axiological, not to mention teleological, but only material, or, as in most cases only modal."

Departures from the Benthamite System of Valuation

We cannot say that the Smithian economics refused to consider ethical or social norms. In the 18th century which was an era of liberalism, education and democracy in Europe, the norms of Classical economics approximated to those ideals of freedom of competition and enterprise, which gave expression to the social revolt appropriate for the age. The era of industrial discoveries and inventions engendered the belief that material wealth was the basis and means of welfare. This belief was exaggerated in the Benthamite system of valuation, while there could not be any suspicion of the disharmony between the interests of employers and even of propertied classes and those of the working classes in a regime of free competition and security of capital and property. Mill's analysis of the wrongs of the distributive process, his proposals for modification of the prevalent rights of property and monopoly, and his speculations in respect of a more equitable collective social order in which the welfare of the general body of workers would be guaranteed, have given valuable suggestions to a generation of social reformers. Even the pessimistic analysis of Malthus was motivated by a deep sympathy for the working classes and an ethical belief in the perfection of the social and industrial processes which were then re-fashioning man rather than in the perfectibility of human nature which was Godwin's creed. Nor were the Classical economists entirely averse to state regulation for the solution of social conflicts. Their position of hostility to Mercantalism did not permit them to expect much gain from governmental regulation of wages in the interest of labour. For the improvement of the condition of the working class they looked primarily to the free development of

productive agencies and increasing productivity of labour itself. But most of them advocated various regulations such as would protect labour against exploitation, while Malthus and Mill in particular made out a strong case for universal education. Adolf Weber has shown that the interpretation of their doctrines by later economists as a system of interacting mechanical system based on the economic man and free competition has effectively concealed the interest they took in social welfare. Yet on the whole Classical economics rested upon national efficiency and welfare and centred its interest in the wealth of nations. The far-reaching industrial and social changes have made the old norms adopted by the philosophical radicals in England and France of the past not only useless but also harmful. Economics must now anchor itself to new norms amidst the revolutionary change in economic power and social and moral relations between the classes in contemporary society.

Economics and Ethics

Ethical judgment depends upon and awaits the field of data which economics deals with. Economic behaviour also implicates ethical considerations. The autonomy of economics as a social science rests on the consideration that the complexity of economic data in no way prevents the seeker from placing himself at a particular "standpoint" in order to separate out "economic principles." But the economist often mixes functions and tends to trespass on the other social data, appearing as a giver of advice and a builder of social laws. The French economist, Simiand, points out the anomaly. One does not ordinarily see sciences leap thus from explanations to prescriptions, from the positive to the normative. But the very abstraction the economist employs, suggests this temptation. He finds that economic persons, individual or collective, normally seek to attain their ends by the most direct means so as to draw the

maximum return from the activities they put into play. Now this desire does not appear to him to be always conscious of itself or sure of its means. Being better informed as to the conditions of success, he wants to set those efforts right, to put producers, consumers, traders back in the right path, to say to them, "If you really want to act as 'economic men,' here is the way to obtain the maximum of profit with the minimum of expense, here are the conditions which determine the maximum difference between the satisfaction of needs by the consumption of goods and the work necessary to the production of these goods."[1] On the other hand, the very generality of the economic interest and the abstractness of the ideas by which it maintains routine or safeguards change in man's experience are what make it unmistakably ethical. Without specific ends of his own it affords no ground for dogmatism or apologetics.

The so-called materialism of economics thus lies not in its aim and tendency but in its standpoint and methods. It has no bias towards a lower order of attitudes, values and satisfactions. It only takes note of the ways and degrees of dependence upon the limited resources and conditions of the mundane world that values of every order must acknowledge. Professor Stuart thus indicates the relations between economic interests and other values: "Economics reminds us that morality and culture, if they are genuine, must know not only what they intend but what they cost. They must understand not only the direct but the indirect and the accidental bearing of their purposes upon all of our interests, private and social, that they are likely to affect. The detachment of the economic interest from any particular level or class of values is only the obverse aspect of the special kind of concern it has with values of every sort."[2]

[1] Quoted in Bougle: *Evolution of Values,* p. 107.

[2] H. W. Stuart: Phases of the Economic Interest, in *Creative Intelligence,* p. 352.

The Order of Human Values

We give below a table or system of human values arranged according to an order or hierarchy, which commands a large measure of unanimity. The order represents mankind's working scheme of gradation of the various desires and interests which integrate themselves into values, and also indicates the ethical obligation to choose higher values over lower. It is the duty of every man to work out a meaning and value for his life in its individuality and in its contribution to society, and just for this reason that he has this duty, he has also the right to the conditions of its fulfilment that is guaranteed by society.

Values	*Desires and Interests*	*Rights and Obligations*
Vital.	Hunger, Reproduction, Play.	Rights to life and personal freedom and security; right of preservation of life from accident, starvation or any form of premature death; right to old-age pension; rights and duties to work, to marriage and paternity; rights to holiday with pay, to leisure and recreation; familial and economic obligations.
Economic	Food and acquisition, sex; gregariousness; self-assertion; aesthetic impulse; construction.	Rights of property and of bequest and inheritance; duties to pay taxes and refrain from using property in manner detrimental to society; political obligations.

Values	*Desires and Interests*	*Rights and Obligations*
Cultural and Personal.	Gregariousness; self-assertion; self-abasement.	Rights of freedom of speech, association and movement; rights to collective bargaining and strike; right to form contracts; right of protection against humiliation of the person, etc.; moral obligations.
Intellectual, aesthetic and religious.	Curiosity; aesthetic impulse; holiness; self-assertion; self-abasement.	Rights to free education and to freedom of worship; right of protection against exhibition of ugliness and immorality etc.; intellectual and religious obligations.

The Relations between Economic Interests and Virtues

To be sure, values arise due to a certain integration and coordination of desires or interests when these combine in a specific order. Different combinations of desires or interests would represent different values. Values when apparently the most subjective are partly social products, the outcome of collective judgment. It is the community or group which, for instance, moulds and directs even the vital needs of food, clothing, shelter and the family, and coordinates these as man's standard of living. Status in all societies is a result of group adaptation to certain vital instincts and standards, and plays an important part in classifying and grading the values that the individual in society ascribes or should ascribe to conflicting interests. Man's instinctive life has hardly changed since the dawn of society;

his biological heritage has not greatly altered. Society blends and coordinates the ensemble of instincts and desires in a manner that will serve it. Man's social legacy and discipline so canalise the direction of instincts that these, instead of becoming disruptive and explosive forces by working in isolation, integrate with one another and thus serve the welfare of individuals and the good of the community. This is the transformation of instincts and desires into values and virtues that society deliberately creates and nourishes for its own existence and welfare. By virtues we mean habits or aspects of character that are acquired in the pursuit of values, in the performance of duties and in the recognition or fulfilment of rights of various kinds. The instincts or desires of food and acquisition, self-assertion and construction have been integrated together and directed by society into economic values and the virtue of economy. Curiosity and the aesthetic impulse, self-assertion and self-abasement, have by blending and compounding in a more subtle delicate manner become man's intellectual, aesthetic and religious values, and are sought as the virtues of wisdom and holiness. It is thus that man's fundamental dispositions, representing the warp and the woof, are woven into the texture not only of economic but also of moral values, virtues and rights by his experience, experience of self and of the society to which he owes his work, tradition and education.

The Theory of Economic Rights

As members of a social whole, each individual in the pursuit of his values of life, no matter how the brute forces of the world frustrate it, claims aid in such pursuit or exemption from interference in it. Such claims are his rights and imply also duties, both of which rest fundamentally on a common social purpose. What subjective caprice may claim as right is not necessarily right, but only that is true right in its ethical significance which Radbruch has expressed in

his formula, "the right to the fulfilment of duty." The "right to the fulfilment of duty" for a personality in a community becomes at the same time the duty and right to work. The problems of economic activity and award thus appear in their ethical significance. Many of the new economic and social rights mentioned above, which are steadily advancing all over the world, particularly the right to work, must support the Classical political rights, the basic freedoms of liberal democratic society if the latter can be operative or relevant in the modern industrial situation with its economic fluctuations, chronic unemployment and low living standards for the majority. Of all the economic rights the right to work is the most difficult one to secure and protect as it is also one of the few instances in which a duty is demanded as right. It is linked to the right to property of which it is the legitimate and disillusioned descendant in modern industrial society.[1] In the pre-capitalist epoch the right of ownership in a holding or a workshop could only be enjoyed by working the property. Under modern capitalism and landlordism property relieves the owner from the necessity of working. The aim of the right to work is to remove the idleness of both the propertied and propertyless. For the propertyless the right to work offers social security in an industrial system in which the uncertainty of employment and subsistence destroys the meaning of political rights. For the propertied classes the right to work proclaims a duty, the negation of which transforms the right to property into a factor disruptive of society itself and destroys the individual's opportunity of realisation from which the right of property has emerged. Man has the duty to work in order to give his life a meaning in the community of the group, the nation and the state. The duty

[1] Max Ascoli: The Right to Work and Discussions, *Social Research*, May 1939.

and right to work bring with it certain other cognate rights. With work the right to compensation stands in necessary inter-relation. Man has a right to work, but he must be able through his work to assure for himself a wage adequate not only for his subsistence but also for filling his life with meaning, and expressing by his life his duties to the community and to himself.[2] The right to a living wage becomes indissolubly bound up with the duty to work. From the duty of every member of society to work for himself a meaning and value in life, every personality has a right to the opportunity of fulfilling this duty and to a guarantee of freedom in the state for such fulfilment of duty through the control of the community life by the legal framework of institutions and economic freedoms. The totalitarian states of Soviet Russia and Fascist Germany have, however, in order to effectively safeguard the right to work deny the workers all other freedoms. The denial of the rights of free association and collective bargaining or strike, of the worker's freedom of movement from one job to another or conscription suppress the essential right to personality to which all rights are basically retraceable. Rights, political, economic or civic, support one another, and are also supported by corresponding obligations. It requires an alert watchfulness for the community to ensure that there is a harmonious coordination of property or economic or political rights, all working towards the basic "right to the fulfilment of duty." Thus the problems of law, of freedom, of work, of industry, of culture and education are all co-implicated in their ethical bearing. Society fashions values and virtues out of the raw materials of man's instinctive urges and fundamental interests and experiences, and also guarantees his success in appropriat-

[2] The "right to the fulfilment of duty", Radbruch's formula, has been stressed by the new ethics in Germany. See Bruno Bauch: The Development of Ethical Problems, pp. 445-451 in Schaub: *Philosophy Today*.

ing values and cultivating virtues by giving him help or forbearance through the enforcement of civic, social and economic rights.

Evaluation, a Social Process

The fulfilment of man's primary and universal urges, the pursuit of values and the cultivation of virtues show an order and organisation, which it is the task of society to maintain and even enforce in the interests of individual welfare and social harmony. Evaluation is an essential phase of the social process. Every individual in a concrete situation is faced with some alternatives of behaviour. It is society which selects and organises valuations that offer an easy guidance to the individual in his adjustment. Such adjustment is also creative in so far as it implicates also his own judgment, effort and duty, his personality. Society thus is not merely a sphere of division of labour or of coordination of efforts and services. It is essentially a communion of meanings, values and virtues. Without an ordering of higher and lower desires and interests, a hierarchy of values, society would lack an essential principle of organisation. Individual valuations compete with one another but it is the society which selects, approves and groups. Out of the reflective objectification and criticism of society's preferences arise virtues and ideals. Out of society's adaptation of means to ends arise rights and duties. Like the system of values, these are transmitted to successive generations as a social heritage, embracing and organising every field of human relations and activities. Society through collective focus of attention and reflection transforms instinctive behaviour patterns of individuals in the animal aggregations into values, virtues and ideals, and the ecological mechanisms of social cooperation into an ethical and legal framework of freedoms, rights and duties. It furnishes the ordering principle not only for the subordination of lower interests

and values to the higher but also for the integration and derivation of interests and values. Its grant to the individual of help, forbearance and power in the form of rights, and its prescription of duties, virtues and ideals are related to the essential principle that the realisation of the full and complete personality is the summum bonum in life. It is society which also fashions the moral and legal code and dominant cultural motif for guiding the individual in such realisation.

Criteria of Preference

Economic interests and values are universal, but society subordinates these to cultural, aesthetic and intellectual values. In Scheler's ethics we find a systematic attempt at establishing a fixed pervading gradation of values which correspond to certain strata of feeling. Scheler's criteria of preference are as follows:—(1) Values are relatively higher, the more enduring they are. (2) Values are so much the higher, the less the quality of their carrier increases with its extension and decreases with its division. (3) Values that are the conditions of other values are esteemed higher than those that are conditioned. Intrinsic values are rated higher than instrumental, extrinsic or contributory ones. (4) The depth of satisfaction yielded is another criterion. (5) Lastly, absolute values are preferred to relative ones.[1] Economic goods are valuable only as contributory to the vital values and ultimately the other values, cultural and personal, that supervene upon them. But these cannot be made ends in themselves without initiating "that self-defeating process of which the hedonistic paradox is the classical expression." Economic values not only do not persist above the transitoriness of disposition and situation but they bring about satiety and dulling of sensitivity for satisfactions. As material objects which produce them admit of being

[1] Hartmann: *Ethics*, Vol. 2, Chapter IV.

shared only inasmuch as we divide them, their value for the individual suffers loss progressively with each division. Accordingly they separate the persons who share them. The higher personal and cultural values unite men in a common possession. The more common and universal these are, the more *productive* these are. Urban describes this distinguishing mark of higher values as 'productivity.' Cultural and personal values escape the law inherent in all material things. They multiply in distribution and suffer no loss with division. Such vital groups of various kinds as the family, kin, brotherhood are more fertile in the creation of new values, such as love, devotion, fidelity and patriotism, than are the merely material or instrumental goods. From the standpoint of desires and interests, those values are the highest which correspond with the highest degree of integration of desires and interests. From the standpoint of objects of value, those objects are the highest which contain in them the greatest potentiality in bringing this about. The standard of value is found, then, remarks Urban, not in the degree of happiness but in the functional total self-realisation.[1] The emotional response to the higher values is a response of the whole personality. It is for this reason that Scheler calls these higher values "personal values" or more accurately "values of personality." The pursuit of the cultural and personal values depends in some measure not only on vitality and health but also on leisure and wealth. Thus aesthetic or intellectual interests may be combined with economic interest. When values are thus backed up by other values, society draws the line of demarcation between ultimate and instrumental values, and permits their juxtaposition but not the superiority nor the independence of the latter. There is interdependence between values, but society ensures that the hegemony belongs to the ultimate, underivative values.

[1] Urban: *Fundamentals of Ethics*, pp. 170-175.

The Perversion of Values

Max Scheler stresses the tendency in modern industrial civilisation towards subordinating the ultimate good to the search for the material objects and values which are instrumental and contributory. This falsification, he suggests, is a product of resentment. Many of the economic goods are intimately associated in our experience with health, comfort and leisure and give access to the cultural, personal and spiritual values; thus these become symbols for the value of these and become scarcely distinguished from them. Resentment against the claim of the personal and spiritual values that the individual fails to attain finds expression in the denial of the whole order of values and the substitution of an arbitrary personal standard. Scheler observes, "An immensely complex mechanism of production has thus been built up, resulting in ceaseless toil without any reference to the ultimate good that is to result, and exhausting all the force needed to enjoy it when attained. The so-called triumph of modern civilisation is no advance but a decadence, representing the victory of the strong over the meek, of cunning over talent, of quantity over quality, and the loss of the real ends through absorption in things that are means merely."[1]

Two factors underlie the transposition and perversion of values in modern society. Modern machine and technology have removed the ends and the means further and further from each other, and brought into existence numerous intermediate groups which seek instrumental ends that are exalted into ends in themselves. Secondly, man has not the courage to live by his own judgment, and turns for his support to fellowmen accepting the common interests of groups as criterion and disparaging the higher values which he has not the power or capacity to enjoy. He avenges himself

[1] M. E. Clarke: A Phenomenoloical System of Ethics, *Philosophy*, 1933.

on the spiritual value he cannot reach by dragging it down to the level of economic goods, which he may reach or enjoy. The adoration of the higher values is thus replaced by the cult of the useful. Economic values are regarded as the supreme values. In economic life the group which gives access to all the instrumental ends that are not above the level of common achievement is called the class. The personal and spiritual values are either overlooked or subordinated to the common interests of the class.

The Distinction between Intrinsic and Instrumental Values

Such common interests of the wage-earning, the middle and the entrepreneur classes are means to some ultimate ends, such as wealth and social and economic status and power, and are differentiated from the interests of other social groups or the interests of the community at large. Instrumental values are sought in classes and artificial and secondary groups and associations through contracts or agreements of reciprocal services and obligations, which appeal to single, specific interests, not to the totality of interests and values of individuals. Contrasted with such "artefacts" are the familial types of grouping in society from which intrinsic values are derived. Primary groups are based on organic bonds of dispositions and feelings which become the seats of the totality of interests and values. Society does not tolerate the invasion of the idea of legal contract governing the sphere of domestic relations, which, on the other hand, it envisages as pitched up to interests and values over-reaching the specific or mutual interests and agreements of the individuals concerned. The family is coeval with the eternal community; the intrinsic values it seeks are shared with all, and the virtues of love and devotion it fosters are allied to the ultimate values that art and religion stand for. The class is an artificial association,

resting on a covenant implied in the actions of its individuals who derive a complex of instrumental values from these. These are appropriated and possessed by the individuals in a form and degree which limit the relations of common life. It fosters the virtues of prudence, economy and aggression, which are in a sense subordinate to the common, partitive virtues of love, wisdom and holiness. In the concrete social situation the class seeks exclusive, instrumental values which unite the members within it and separate the class itself from other groups and associations.

The Class, the Community and the State as Creators of Values

Society or the community which serves as the condition of the realisation of manifold values has an additional value ascribed to it. Society creates an intrinsic value which is an emergent value. It also possesses instrumental values, which arise from the normal give-and-take of social intercourse. The intrinsic values of society will be rated higher than its instrumental values. The solidarity of society depends upon the ensemble of values which its members ascribe to it. The ascription is emotional or intellectual, or both. As we change from the family and kindred, neighbourhood and civil community to the voluntary "association," intensity of emotions diminishes; the process of valuation partakes more and more of an intellectual character, and the conviction grows that the group stands for a set of ideas and purposes and is not of the same character as particular objects of the physical environment or social situations which fulfil the impulses of man. It is in this that the distinction between instrumental and intrinsic ends of groups and institutions is rooted. It is an exchange of services rather than a communion of feelings and values which becomes the social binder of the class or any other "association," which is an artificial construction. The community is not only the focus

of intrinsic values, but is also the pre-condition as well as the medium for the appropriation of values in all groups and institutions within itself. The disruption of society not merely endangers order, and security and disturbs economic life but also the whole texture of cultural and social values. Society constitutes the background on which groups and institutions having intrinsic and instrumental values may arise; it is the living and growing framework and relations which coordinate multitudinous variant values of succeeding generations. Any danger to the stability of society accordingly at once invests it with the highest intrinsic value so that all other groups and satisfactions may be sacrificed in its interest.

Since the state is the coercive organ of society, the unique character of political values emerges. Compulsion which distinguishes law from propriety and ethical conduct becomes inseparable from the ethical meaning of the state, and means freedom to realise values through personality in the totality of community life. Economic values arise when attention is focussed on the question of alternative uses of scarce means for the fulfilment of desires, interests and duties but these are dividing interests, and are smaller than the common values within a state-determined community. Political values arise when attention is fixed on the community as the pre-condition of the fulfilment of desires, interests and duties which thereby is invested with coercive power. The state is more than one among other associations; it is "the association of associations." As men grow into the family and the kindred, groups and institutions grow into the state, which is the system of conventions, regulations and norms that coordinate individual as well as institutional and group relations. The state is the greatest of associations and through its chief instrument, political law, addresses itself in view of the ceaseless conflicts of individuals, institutions and values within the community to the task of co-

ordinating the values and fulfilling the conditions of value-fulfilment for all. Rights and duties and the framework of freedom of contract and property and the particular legal institutions of the community determine and limit economic values. Economic values are nothing but stable values of groups and institutions with legal relations. Man's adjustment of means to scarce resources remains an ecologic and technological phenomenon until it is incorporated with some particular legal and institutional framework of freedoms and rights by the state and other intermediate associations which then transforms it into an economic phenomenon. Stammler properly points out that the mode of regulation has the logical priority, even though it is not necessarily the temporal antecedent. Without it the phenomena of social-economic life cannot be understood. As a matter of fact there was never an economic order without law or law without an economic order. Law is simply the logically conditioning form of the economic order; and the economic order is the content whose eternal flux is regulated by law.[1] Voluntary associations like the class or any other special groups are based on contract or conventional regulation, and a man can withdraw from these according to his pleasure. But the state which fulfils the conditions for the fulfilment and coordination of the manifold interests and values of all groups and institutions within the community creates values which lay claim to a validity that is independent of the consent of those subject to it. The coercive character of law also differentiates it from ethical obligation. But since the compulsion of law is against subjective caprice, it is by it alone that the life of the community can be ruled by the ultimate values. Compulsion does not destroy ethical freedom; precisely by the very fact that it hinders caprice it serves freedom. Law according-

[1] S. Bovensiepen: Legal and Political Philosophy in Schaub: *Philosophy Today*, p. 484.

ly stands in the closest relation with ethical obligation itself. According to Radbruch the moral is the end of the law and for this reason is the ultimate foundation of its obligatory force. Only morals can justify the obligatory force of the law. But the content of law and that of morals differ wholly. If they happen to coincide in some case, it is merely by chance. Nevertheless the law confers rights only where those to whom they are attributed are in a position to achieve their moral duties.[1] Law serves the personality by ordering the scheme of interests, values and duties and furnishes and enforces also the conditions and guarantees freedom for their realisation by institutions and groups. But the community coordinates interests, values and duties also through its culture; customs, conventions, traditions and public opinion also cooperate with law, sometimes with greater psychological drive, in demarcating between instrumental and ultimate values, and ensuring the supremacy of intrinsic values. The cultural, personal and intellectual values define integrated and common systems of satisfactions for all individuals, and it is also these which lay down norms determining those relations and limits on the use of others as means, on the acquisition and use of power and derivative interests and values in general. The instrumental intrinsic means-end relationship represents a continuous chain. At one end are the human instincts and desires which represent channels of adaptation to the environment. At the other end of the means-end chain is the factor of ultimate values which are ends in themselves. The ultimate values or the superiority of one in a certain group of them cannot be proved scientifically. Scientific discussions should treat them on an equal footing, and leave any choice from among them to the conscientious judgment of the individual though, accord-

[1] Roscoe Pound: Fifty Years of Jurisprudence, *Harvard Law Review*, Vol. 51, 1938.

ing to Kantorowicz, it is possible for science to help each individual in finding out the values "which are really adequate to his nature."[1]

[1] Arnold Brecht: The Rise of Relativism in Political and Legal Philosophy, *Social Research*, September 1939.

CHAPTER XII

THE VALUES OF GROUPS AND INSTITUTIONS

The Conflict of Values

Man's economic activities are aids to the realisation of all possible values he can derive from goods, groups or institutions. He not only differentiates between values, but adopts a practical working scheme of their order or gradation, calling some lower values and others progressively higher and higher values. Values which are means of realisation of other values he as a rule would treat as lower than intrinsic values, which are ends in themselves. The subordination of instrumental to intrinsic values is indicated by the ethical recognition that the physical values or satisfactions such as hunger, reproduction and play are ends for the realisation of personal values which take precedence where there is conflict. Similarly economic values are not ends in themselves but only means of realising the physical satisfactions and ultimately the cultural and personal values that supervene upon them, which latter, therefore, take precedence. In general we may say that the economic values are the lowest and the spiritual in the broadest sense are the highest; the ethical, the logical and the aesthetic being arranged in various ways in between. Cardozzo observes, "Where conflict exists, moral values are to be preferred to economic, and economic to aesthetic. Yet casuistry will discover overlappings and exceptions."

But ethics is something more than a schematisation of values. For the individual is not confronted with ready-made alternatives in which values arrange themselves in a hierarchy to be picked out by his judgment. Often the alternatives

and ends have to be discovered, and old values weighed in new setting, and herein lies the scope of intelligent and precise analysis and rational deliberation of the concrete situation.

Economy of effort is the norm which is applicable to much of man's system of means and ends. In man's relations to the limited resources of the environment this yields the principles of marginal utility governing the choice of ends and of efficiency governing the effort. Man derives his utilities in a milieu of social cooperation, in the group, the community and the state. In the life in groups and in associations it is the same principle of economy and efficiency which govern the balancing of loss of freedom of individuals and authority of the state, the class, the family and other associations, which may best secure the degree of concentration of ends that the groups and the community demand and stand for.

The same principle of economy underlies the division of labour and apportionment of management in the family when it seeks the maximum return from its activities. But while the family places itself in the economic standpoint for the organisation of its efforts and satisfactions, such efforts and satisfactions derive their real significance from ends which are superior to economic values. There are occasions in which such ends, indeed, demand modification of the principle of maximum return at the minimum sacrifice in order that the family as an institution can be maintained at all.

Intrinsic and Instrumental Values of Groups and Institutions

Intrinsic values are attributed to the family, the kindred and the state-determined community as a vital grouping. Instrumental values may be attributed to the economic efforts and satisfactions of the members of the family who seek to lead the kind of family life they deem worth while. Large

groups, such as the state, race, or nation, possess pre-conditioning values as defined above. All economic and occupational groups and voluntary constructed associations usually have instrumental values. Philosophers and social reformers have often urged man to change the order of valuation. But human nature seems to have followed its own urges, unmindful of their dictates. Man's desires, interests and values are ever changing, integrating and differentiating. Thus he maintains as well as transforms not only the familial type of social groupings but also the larger "voluntary" associations. In the voluntary associations which seek instrumental values, not shared by the entire community, he subordinates the idea of reciprocal agreement to laws and regulations and imports concerted feeling and willing of the members of the community. With those members of the state, the class, and the church, who realise intrinsic values habitually or in social crises in these institutions, the evolution of such voluntary institutions with a broadening basis of contract, and the pursuit of ultimate values in the midst of mechanical-materialistic unculture will largely depend. Man in this way gains for the problems of covenant, right and duty a new and deeper meaning. The state or the class is based on a covenant, but as the individual understands it as subordinate to the totality of community life, the compulsion of law of the state and rules and agreements of voluntary associations becomes a means to freedom as self-determination in the fulfilment of duty for the sake of the ultimate values. For the many the state or the class will be an artefact resting on covenant, and they will be mere subjects and wage-earners, not citizens. But for the *elite* who realise values through personality in the state or other voluntary associations, these latter will not rest on contract, but will reveal more and more the life of the community. On the other hand, because a group or institution is based on or determined by instinctive dispositions and organic feelings, it does not

follow that it is consequently natural and unconventional, and guarantees the pursuit of intrinsic values. The meaning of primary familial obligations and of reciprocal love and devotion can be easily obliterated in a religious-proprietary family, which has accepted marriage as a sacrament by a mechanical conformity to social habits and conventions. The economic pressure compelling an early separation of the adolescent members of the family and bringing about relative economic independence of married women may destroy the meaning of old family duties and obligations based on mutual dependence. Whether in the case of a social artefact like a voluntary association, which addresses itself to the pursuit of derivative interests and values, or a vital mode of association like the family, which prizes the intrinsic values, the individual must exercise a will that will relate itself to the ultimate values. Thus the self-conscious individual gains ethical potentiality. An institution or a group is accordingly an ethical community only potentially, just as the individual is a moral personality only potentially. Both group and personality are conditions of the possible realisation of ultimate values. These are greater than the instrumental values on which groups and institutions rest. The ultimate values are superior to the instrumental values which divide, and such superiority is established by man's ethical striving, which alone could reveal individuality in the concrete world as personality and the group and institution as the community.

Why do the familial type of social groupings and vital modes of association, as contrasted with the greater associations, usually possess intrinsic values? This is a psychological issue. Human personalities, of all objects, have the surest claim to intrinsic worth. The child, the wife, the husband, all possess values by virtue of their very relationships. It is for this reason that faults and shortcomings are overlooked and forgiven in the family group. The ground of valuation

in these cases lies in the fact that each personality fulfils not one kind of instinctive urges but many. Thus the value that is attached to the individual is not that arising from any one instinct, but from a whole group of instincts. The feelings arising from each specific instinctive urge blend together and are projected to the individual. It is because these feelings lose their particularistic tendencies in the blended whole that they assume an intrinsic character, Further, some of the interests serve as the nuclei round which other interests gather and constitute a complex of urges. The urges of food and sex, for instance, in all ages and countries have served as nuclei which have attracted to them other impulses, such as those of a parental tenderness, gregariousness, aggression and acquisition. The interest-group seeks its satisfaction as a whole. Thus some of the constituent urges may be directly fulfilled, others only indirectly. When any object or situation directly fulfils the nuclear interests it possesses an intrinsic value. In this way, the institution of the family comes to possess an intrinsic value. On the other hand, a class normally fulfils the economic interests indirectly by securing for the individual an opportunity to compete for livelihood under advantageous conditions.

The Changing Values of Institutions

The character of the nuclear interests is different in different individuals, societies, and epochs of history. In the age of knight-errantry, for instance, the impulse of aggression was often the organizing factor. In the period of industrial development the economic and gregarious interests lie at the roots of social gradation. There is accordingly a change in the order of valuation, the intrinsic value in one situation changes into instrumental value in another. The relative values of different social institutions for any given period of time can be explained on similar principles. By institutions we mean an organisation which gives concrete

and durable form to man's desires, interests and values. Both groups and institutions are links between the ultimate values and the social world in which they are to become effective for the individuals. The institution is a part of the individual's adjustment to man and the environment, but it outlives the individuals enlisted in its service. The durability of an institution is determined by the permanence of the combination of desires, interests and values it satisfies for a number of individuals. Not only the number of persons who participate in any institution, but also the degree of sacrifice they may be prepared to make for it indicate the character and stability of the desires, interests and values a specific institution fulfils. Customs, manners, laws and social organisations thus may be adjudged with respect to their several values derived from them simultaneously. When a decaying institution, e.g., sweated or child labour, is attacked, there are only a few who come forward in its defence, though many through sheer inertia of tradition may maintain it. The value of the institution, therefore, cannot be measured by numbers alone. The interests that an institution serves may disintegrate; there may be left merely the external shell of an effete institution. It is only when we are able to estimate the amount of strain and opposition that an institution can withstand that we are in a position to appreciate its value. Further, several interests and values may be focussed in the institution. An institution, a ritual, a festival may have lost its original religious ends; many persons, however, assign to it economic and political ends, and a few aesthetic ends. It is thus that the values of institutions blend, dissociate and change, and these do not exclude but aid one another. Bougle calls the multiplicity of ends attained by the same means, such as an institution, a custom or a method, "polytelism." "From an institution a custom, a precept, a judgment of value, varied influences can radiate; several tendencies can derive satisfaction from them at the same time." As

significant as the principle of differentiation of values with social progress, the conjunction of values aids society to overcome the forces of disintegration, and promote continuity and solidarity through so many patterns of instinct and value combinations.

Judged by this standard, all institutions possess some kind of value, intrinsic, instrumental, or pre-conditioning. Even the same institution may possess different values to its different constituents. Thus the church organisation may be of intrinsic value to the priests, and of instrumental value to worldly persons who look upon religion as a means of material well-being. The religious group, congregation or community is different from the church, which is an institution created by the former and without which the ideas, interests and values that the congregation represents cannot exercise their full power in society.

The Revived Concept of Natural Rights

In the mutual give-and-take between man and the environment energies, satisfactions and values emerge. Groups and institutions are objects to which individuals direct their activities that they may obtain different kinds of satisfaction. It is these latter which are fundamental, groups and institutions being mere episodes in the process of appropriation of values. The ends are to be sought in the individual, but the means sought in the group processes and institutional relations. Now, the instincts, claims or values of individuals were once stressed by the Natural Rights School of the eighteenth century. Natural laws were descriptive names for those current moral ideas which were then accepted without question: these are pure fiction. Modern jurists now aver that from the standpoint of law, economics and politics men are endowed with no innate, immutable Natural Rights. Yet in the hands of the Natural Rights School in France, of Kohler and Stammler in Germany and of Roscoe

Pound in the United States, natural law has been revived, the modern interpretation emphasising the ethical rather than the traditional metaphysical approach. This transition is important and has important lessons for reconciling ethics and economics. Roscoe Pound observes: "Already there is a revival of natural law, not of the natural law that would have imposed upon us an idealized version of the law of the past as something from which we might never escape, but of a creative natural law that would enable us to make of our received legal materials, as systematized by the legal science of the last century, a living instrument of justice in the society of to-day and to-morrow. Such a natural law will not call upon us to turn treatises on ethics or economics or sociology directly into institutes of law. But it will not be content with a legal science that refuses to look beyond or behind formal legal precepts and so misses more than half of what goes to make up the law." The criterion of "natural" may have been banished from metaphysics, but it has validity in ethics and all the social sciences, focussing as it does attention to an improved order, improvement of law, of social arrangements and economic systems. There will be a great gain in economics if norms and standards such as now symbolised by the ethical rather than the metaphysical significance of the concept "natural" are included in economic theory. A definite movement in the philosophy of law, away from the exclusive concentration upon descriptive or historical material as was the ideal of the eighteenth century, and towards perennial ethical claims, flowing from the very nature of the individual, points the way towards a similar resurrection of values in economics.[1] The social process also engenders certain rights of functional groups such as families, trade unions, cooperatives and professions, extending and amplifying the

[1] This has been suggested in an able paper, G. R. Geiger: The Place of Values in Economics, *Journal of Philosophy,* Vol. XXVII No. 13. See also his "*Towards an Objective Ethics.*"

rights of individuals too often directed only against the absolute state. The rights of groups and associations in a pluralistic polity can alone rescue the individual from the supremacy of the totalitarian state, on the one hand, and ensure the fulfilment of abstract rights of individuals, on the other. The rights of groups and associations also imply their corresponding duties and obligations like the rights of individuals. For if the groups do not inhere together in an order of social cooperation, neither the rights of individuals nor the rights of intermediate bodies can be more than formal.[1] Further in the intimate personal relationships (*Gemeinschaft*) which are engendered in all vital groups and modes of association, we find the juxtaposition of obligations with duties, which ensures social cooperation as through custom and tradition without the intervention of the formal authoritative decrees of the state. As a matter of fact it is the silent force of tradition and *morale* of these intermediate groups which still forms the nexus of the various interests and capacities in diverse professions and occupations, assuring a solidarity and continuity which are endangered by the stress of formal rights both of the individual and of the state.[2]

The Recognition of Social and Economic Rights

The recognition of certain 'natural rights', with the reassuring placard, 'changing content guaranteed', would avoid the mistakes of the 18th century natural rightists that based a number of too rigid and too absolute rights on the metaphysical status of the individual as a discrete and autonomous entity. If a number of ethical claims or demands of human beings be considered 'as if' these were independent of institutional arrangements, economics would be richer and

[1] Vide Salomon: *Algemeine Staatslehre*, 1931.

[2] I owe this suggestion to Professor Albert Salomon with whom I had a helpful discussion in Paris.

more vital by becoming more susceptible to social planning and direction, while ethics would be also less void of content. Such 'rights' would be treated as certainly relative and variable according to their usefulness which has, however, to be considered in any existential social situation. Charmont referring to the revived concept of natural law observes that "it reconciles itself with the idea of evolution, with that of utility. It loses its absolute, immutable character, for it possesses only a variable content." Certain rights or ethical claims of individuals and groups which have received more or less definite recognition have been tabulated in the previous chapter. The new form of these 'natural rights' corresponds to the empirical and the operational instead of the absolute and the rational. As incentives to social welfare and justice are the rights of individuals coming into the social consciousness, of health and old age protection; of freedom and security; of education; of fair wages, decent housing and standard of living; of an easy and cheap enjoyment of leisure; of free association and collective bargaining, and many more. Some countries have gone ahead of others in the constantly increasing demand for the eradication of vice, and crime, parasitism and pauperism, ugliness and luxury. There is an insistent demand for fuller life and achievement for everybody. The ideal of social justice and harmony fills the vacuum in the economic order created by an irresponsible industrial-financial system, by lack of reserve of capital, culture and opportunities of the under-privileged or by man's inherent natural defects and drawbacks. No doubt there are risks and hazards of life which cannot all be eliminated. With the diminution of unemployment and poverty society will still show inequalities of income and will still run risks. But it is the notion of social and economic rights which will enable the individual to incur such risks not pathetically but with dignity. This means that the risks must first be run by the community, by the state. Ascoli observes: "Rights

equally granted to all the citizens are actually worked out by each individual according to the degree of energy of application and skill. In a democracy the inequality of power that results from the different utilisation of equal rights can be checked in its dangerous tendency to become hereditary, if equal opportunities to education, physical care and a career are effectively guaranteed to all the citizens."[1] The rights to health, to work, and to education are accordingly the foundations of the cultivation and preservation of many other rights. But no rights can be maintained unless the society keeps a close watch over the actual working and organisation of the rights. The function of rights, then, is to correct the natural inequality of man, directing man's appropriative, assertive, and constructive impulses along rational and humane channels, on the one hand, and by a collective sharing of the opportunities and hazards of life, on the other. The recognition of such rights and claims would bridge the present gulf between price economics and welfare economics, and help towards securing the objective conditions which may be regarded as indicative of the measure in which the economic organisation is serving as a means to the ultimate values. Bentham's principle of utility which still serves as the basis of economic speculation is also an admirable basis for a rationalist natural law. Sir Frederick Pollock has, indeed, pointed out that William of Ockhan used the Benthamite principle under the name of *communis utilitas* as the foundation of natural law; and that Bentham himself uses natural law to establish certain principles of his Civil Code.[2]

In the midst of a variety of economic systems and laws of property, freedom and contract there are natural social and economic rights which man claims and must claim

[1] The Right to Work, and remarks of Max Lerner and Eduard Heimann, *Social Research*, May 1939.

[2] Quoted in *Modern Theories of Law*, page 74.

because of his innate nature and the nature of his economic and social contacts which have grown out of that nature. Since the rights are treated hypothetically these will be easy to manipulate and operate with. Rights are relative to economic and social circumstances. No single right can be claimed, exercised or enforced unconditionally. The right to work is not relevant to a predominantly agricultural population on whom the distribution of sunshine and rainfall enforces periods of idleness. An adequate standard of education must be reached before a people may be entitled to the right of free speech and free press and protection of health or even against libel or humiliation. No right can be effective unless the people can also develop the particular agency or organisation necessary for its enforcement. Many rights, property or economic or civic, depend for their effective guarantee on collective effort and institutional mediation. It is, therefore, essential also to stress the rights of groups and institutions. The totalitarian state has no patience in dealing with the group as it offers employment to workers, and has abolished the workers' "rights of free association," collective bargaining and strike, when they are under the duty to work. In a liberal democratic state the basic rights of diverse groups, classes, professions and institutions are not endangered or whittled down. These protect individuals from the invasion by the state of the domain of the values of personality, and at the same time ensure the effective organisation of many of the abstract rights of individuals. The trade-union, for instance, creates a legal status for the industrial worker for whom it safeguards the rights of collective bargaining, minimum wage, living and housing standards etc. In the social and economic life new handicaps and hazards constantly arise, and it is often the group organisation which furnishes the framework of economic security within which abstract rights of individuals can have meaning. Thus the rights of groups or institutions

often pre-condition the rights of individuals, whose status is constantly being challenged and endangered. Above all, such rights or claims, independent of social and legal arrangements, constitute the test of efficiency of economic systems, and express the supremacy of the human will to evaluate, criticise and amend the economic or political system, if found at variance or in conflict with these. It is to the Christian tradition that Europe owes not only the dignity and liberty of the human person but also the rule of law as the basis of society and the subordination of Government both to law based on the personal rights of man and to the purposes of the citizen. Such rights in the social order have the sanction of religion, which posits, interprets and ever fashions anew the ultimate values. For God exists in individual men and through them, and men's relations to fellow men are theirs to God, and thus their rights become His rights. Accordingly the ideal of unbounded charity, goodwill and sacrifice is realised as participation in a concrete and intelligible super-individual reality. Conversely, the safeguarding of the basic rights, which are now obliterated by the two totalitarianisms will be the restoration of a Liberal Christian Order. A restatement, fuller and more jealously conceived, of the personal rights of man (in practical form, it may take the form of an extension to majorities of the post-war Minorities Treaties[1]) might reassert the frontiers beyond which the human person is inviolable, and help to refashion society on liberty, equality, fraternity, reason and law.

The Ultimate Values in the Social World

The system of ultimate values governs the intermediate value system on the biological and economic planes through the recognition of the rights and moral obligations of individuals and groups and maintenance of orderly processes

[1] Suggested by the *Economist*, December 30, 1939.

and relationships with the pursuit of immediate ends. Such ultimate ends are generally common to all humanity, but their mode of embodiment in rights and duties, laws and institutions, customs and conventions, public opinion and social attitudes varies considerably from one society to another. So do also vary the structure, hierarchy and grouping of the ultimate ends, which determine kinds of social behaviour. The ultimate values regulate individual behaviour through the framework of rights, obligations and social codes, institutions and cultural motifs which guide it in seeking instrumental or immediate ends. These ultimate values are also imported into daily social contacts, activities and relationships through an elaborate symbolism, which represents a highly condensed form of behaviour, pregnant with ideas and emotions of great consequence to society. Society's concern for its members and their relations to one another in daily intercourse is expressed by etiquette symbolism for the maintenance of status and contract, of natural-communal and rational-contractual relationships and the elimination of unsocial or anti-social behaviour. Similarly distinctive social ideals and norms are associated with certain visible symbols such as the national or the red flag, the crown or the distinctive costume and verbal slogans such as Liberty, Equality and Fraternity, or, again, certain acts such as paying homage to the chief, singing of national anthems, display of the national flag, observance of national holidays, drinking to the health of the fraternity on every festive occasion, which all represent the process of institutionalization of the ultimate ends of the community. These are also embodied in the form of charters of individual's rights such as the Magna Charta of Great Britain or the Articles of Confederation of the United States, which sustain the immediate ends of the state by becoming symbols or condensed expressions of ethical claims of individuals, groups and nations in the popular mind, and commanding

devotion and sacrifice. Symbolic patterns of behaviour, rituals and observances cherished by the community, groups or institutions are all meaningful economical devices for purposes of reference and are charged with emotional quality; and these serve the purpose of repeating and enforcing the meaning of the common value attitudes in specific social contacts and activities of the work-a-day world. These guide and harmonise individual behaviour that is apt to lose its bearings in the vast complex of instinctive and calculating pursuit of immediate or instrumental ends.

CHAPTER XIII

THE NORMS OF ECONOMIC AND SOCIAL RELATIONS

The Dichotomy of Community and Association, of Status and Contract

In mankind's judgment values that are the conditions of other values are higher than those that are conditioned. Many values are ascribed to groups which are conditions of various satisfactions and values. Now, groups are conditions of both intrinsic as well as instrumental values. Of the former the family, clan, caste and the brotherhood are familiar examples; of the latter the economic class and the state. When intrinsic values inhere in groups, a characteristic type of relationship develops differentiating such groups from those which possess instrumental values. Relationships within the family cannot be adequately interpreted in terms of contract or by a calculation of efforts and satisfactions. The matrimonial relationship extends beyond the interest of the partners in marriage; its ends can be revealed neither by the particular means and ends of the partners, nor by their reciprocal pledges, but these surround, interpenetrate and over-reach their lives. A complex of satisfactions and feelings arising in family relationships are projected to each partner, and these are described as love, fidelity and devotion, which have a kinship to the ultimate common value attitudes that art and religion express. Marriage in most civilisations is thus described as a sacrament; a contract cannot express a relation between parties who are, for certain purposes, a single inseparable unit. In the family organisation it is not the calculation of interests and advantages but reciprocal sacrifice which is the binder. All civilizations prize family

loyalty and allegiance as virtues, while some regard these as norms of all kinds of relationships in society. Tonnies, Sorokin, McIver and, recently, Parsons have shown that such relationships as those in the family represent only a species of a large genus of relationships in all societies. To Tonnies social life has an organic as well as an individualistic-rational aspect. A group can be organic (*Gemeinschaft*) or an association based on interests (*Gessellschaft*) depending on whether organic sympathy (*Wesenwillen*) or rational choice (*Kurwillen*) are present. The organic group or community (*Gemeinschaft*) accordingly arises out of "natural" or biological conditions, instinct, emotion, and tradition. Its fundamental types are blood-relationship, neighbourhood and friendship. Association (*Gessellschaft*) rests on a common *Kurwillen*, which, unlike the former, is characterised by the predominance of individualism and intellectualism, i.e., deliberation and conscious choice over the strivings rooted in man's nature.

It is a fictitious conventional relationship arising out of and maintained by mutual agreement in which each individual of the group seeks his own advantage. *Wesenwillen*, furthermore differs from *Kurwillen* or rational choice, in that the former is a more highly integrated and organismic behaviour than the latter, which is segmental. In the former, the correspondence between means and ends is direct and close; in the latter, means and ends may be far removed from each other, and the one may not necessarily grow out of and lead to the other. Class organisations and institutions are the result of *Kurwillen*, while the division of labour and kinship groups arise out of the more stable and permanent force which he calls *Wesenwillen*. In a word, *Kurwillen*, is the more mechanical and rational behaviour. The "essential will" gave rise to the community, first, as family and kindred, then, as neighbourhood, and, finally, as civil community, in other words, first of blood, then of place, and at length of

spirit. In the community, peace, love and mutual aid prevail. The "conscious will," on the other hand, brought about "association" as a mechanism designed to serve the purposes of the individual. "The community is an organism, association an artefact. The first holds together through *consensus*, as does every true organism; the latter, on the other hand, through a multiplicity of contracts."

The Role of Familial and Contractual Types of Relations

Community and society thus represent not merely two forms of social organisation or structure, but two types of human inter-relationship in activity that is essentially volitional and in a sense two stages of social evolution. The transition from the former to the latter is promoted by an exchange economy and issues in the capitalistic spirit. This fundamental dichotomy recurs throughout Tonnies's work.[1] On this basis he proceeds to reveal everywhere the dualism of modern life. "His significant differentiation furnished," in the words of Oppenheimer, "a rallying cry to the mounting repugnance against the purely materialistic-mechanical unculture of our capitalistic civilisation." Professor Geiger also observes: "The antithesis, *Gemeinschaft-Gessellschaft*, conceived by Tonnies to mean the original and the final stage of social evolution was changed into the programme: Back to *Gemeinschaft!* ! Thus *Gemeinschaft* was made the slogan of a cultural and social rebirth movement, which felt itself strongly opposed to the middle-class civilisation inherited from the 19th century." Freyer defines sociology

[1] The same dichotomy was made earlier by me the basis of sociological analysis of status and contract, of communal and contractual relations and groups in my *Principles of Comparative Economics*, Vol. I., Ch. XX (1921). I had further pointed out there that natural personal relationships represent the norm of development in the East towards which, as towards a standard, all contractual relationships have been made to conform more and more, and that the contractual relationships will in future tend towards ethical and naturalistic justice as embodied in relationships of status.

'Baulehre der Gemeinschaft', and declares that German sociology has done well in selecting the fact of the Gemeinschaft as the primary object of sociological studies. He furthermore expressly describes the National Socialist Movement as a revival of the *Gemeinschaft,* alleging that this movement offers some typical examples of *Gemeinschaft,* more directly accessible than any others to the observation of the sociologists.[1] The community, as Tonnies sees it, has a great deal in common with the primary group of Cooley, for it includes all those relationships which are familiar and intimate, spontaneous, direct and exclusive.[2] Sorokin has similarly described the manifestations of permanent organismic relationship as types of familial relationship. Parsons stresses that in these *Gemeinschaft* relationships which are simply taken for granted as a natural and inevitable way of living, we have a most important element of social life, in fact, an absolutely fundamental one in all societies which cannot, at least in the majority of cases, be thought of as a whole in terms of a rationalized course of action directed toward specific rationally formulated ends. Such relationships are as intimately bound up with value-elements as anything in our lives; but it is in the form of the more diffuse value attitudes, rather than the more specific ultimate ends, that they can best be brought in.[3] From rational choice result purposeful relations in which "the individuals," to use the words of Tonnies, "are separated in spite of association, whereas in *Gemeinschaft* they are associated in spite of separation." *Gemeinschaft,* observes also Alfred Vierkandt, means surrender to a whole, to something of greater value than oneself, which carries with it "the entrancing feeling of

[1] Quoted by Svend Ranulf: Scholarly Forerunners of Fascism, *International Journal of Ethics,* October, 1939.

[2] The Sociology of Ferdinand Tonnies, *American Journal of Sociology,* November, 1928.

[3] Parsons; "The Ultimate Values in Sociological Theory," in the *International Journal of Ethics,* April, 1935.

the widening of the ego."

Gemeinschaft elements may be diffused widely just as *Gesellschaft* characteristics may be found in any type of social structure and in any societal context. Though Tonnies does not narrow *Gemeinschaft* to a local traditional society, he thinks on the whole that under modern conditions in which successful socialisation in economic life can come about only through acceptance of capitalistic forms of production, there is no possibility of returning to a past type of *Gemeinschaft.* A new type must develop, and in all probability it will be highly coloured by *Gesellschaftlich* types of social relationship. This seems to be a somewhat pessimistic conclusion in so far as it is only the incorporation of *Gemeinschaft* elements into the *Gesselschaft* relationships that have been extending their sphere too widely which can hold out the promise at once of social goodwill and service and of the development of an integrated personality. Industrialism as it has toured round the world has prized contractual relationships and groups, disintegrated the vital modes of association, not excluding the family, and corroded the ancient virtues of family devotion, caste and kin loyalty without importing correspondingly inspiring social standards and moral values. The task of reconstruction in agricultural civilisation would be not in substitution, but in the stress of individual responsibility and individualistic justice, which represent the essential element in contractual standards, wherever a status group has smothered the initiative of the individual and stood against his rights and obligations, his true worth. On the other hand, the contractual norms which industrial society nourishes must not be permitted to invade spheres of human relations, which have elicited feelings and attitudes that are akin to man's ultimate values. The crisis in mechanical-technic civilisation cannot be averted, and neither fair labour, competition and property standards can be achieved nor the pecuniary scale of valuation prevented from warping the personality-social process, unless

the primary, organic, familial types of relationships and the duties and virtues of personal understanding, sympathetic appreciation and love become fused with many secondary, intellectual-contractual relations and standards. Both organic-familial and rational-individualistic types of relations and norms are indispensable for social progress, and the nature of their interpenetration depends upon the culture and the stage of economic development in the actual social situation. Neither is the relationship of status sacrosanct, nor the contractual relationship always selfish; both await seizure by the ultimate values for their fullest contribution to social control and personality integration.

In primary and intimate groups mutual responsibility is not confined to specific contracts or promises but implies some responsibility of each for all who participate in the organisation. In Scheler's terminology, on the principle of solidarity values are pooled, and men share in the achievement or failure of others. If values are objective, it is irrelevant who realises them. The exclusive attention to the agent, who is directed to seek "his own good," is characteristic of the modern tendency to subjectify them, which results from man's resentment towards, and mistrust of, his fellows.[1] The permanent social relationships which man has envisaged do not express certain specific rationally formulated ends but symbolise the same imponderable, infinite values, which the immortal human soul embody, and art and the mystical consciousness reveal. These stress duties rather than rights, the cultivation of virtues rather than prudence and the search for intrinsic values rather than for individual advantages. On the other hand, it is the importation of the ultimate values into contractual relationships and specific mechanical behaviour that elevates these, and contributes towards both socialisation and

[1] M. E. Clarke: "A Phenomenological System of Ethics," *Journal of Philosophy*, Vol. 8.

and enrichment of the personality. The search for the highest values by individuals thus resolves all conflicts of impulses and interests, and binds together man with fellowmen in enduring bonds, that themselves become the seats of man's highest aspirations.

The Ultimate Categories of Truth, Beauty and Goodness

Man's social self links his values with his relations with fellowmen, which serve as the raw materials of his valuation process. But man also aspires after an integration of his self with life or experience as a whole. Thus he regards those values as highest which bring about the most complete integration of his interests and functions. These are expressed in the three ultimate categories of Truth, Beauty and Goodness, "a threefold cord, not lightly broken." Society similarly regards those objects of value as the highest, viz., knowledge, art and religion, which exhibit the largest potentialities of bringing about the harmony and integration of impulses, and interests, and the organisation of experience as a whole. The personal and spiritual values are universally regarded as higher than the vital and economic values, and this underlies the ethical and legal framework of freedoms, rights and duties. There emerges from the mass of ethnic and historical valuations, as embodied in customs and institutions, law, convention and public opinion, more or less the above ordering of values. To quote Scheler, who criticises the false assumption that underlies the work of Spencer and some of his associates that modern European civilisation is the standard by which other races and cultures are to be evaluated, "the picture resembles at first sight the confusion of colours on a palette from a row of overturned pots, but it is one of a humanity, coming gradually into a possession of a realm of values as independent of its desires and emotions as the stars in their courses, once believed to have a direct relation to human fate, are now known to be independent of man

and his destiny." The above ordering of the values represents also the norms of rational conduct. Men with supernormal gifts such as mystics, artists and intellectual leaders occasionally extend the recognised range of value but humanity's scale of relative value and importance is hardly modified. The realisation of the values in the above hierarchy is thus a matter of man's ethical obligation. Its psychological explanation lies in the greater and greater fusion of instincts and desires which gives more durable, more common, deeper and more pervasive satisfactions. Man prefers values that are stable, that can be indefinitely shared and are sources of union rather than strife and division, that are the conditions of other values. Finally, absolute values are to be preferred to relative ones, and it is these that are the sources of deeper joy and exaltation. It is the ultimate supra-rational values of truth, beauty and goodness, which are the standards for the resolution of conflicts arising out of the domination of one level of values, virtues and duties over another.

Scheler believes that the levels of preference which both ethnologists and moralists discover in the historical valuings of humanity correspond to the strata of feelings which not only differ in quality and quantity but also in depth. Some feelings belong to a deeper stratum of the personality than others, and are thus more pervasive and more durable than those associated with more superficial levels. It is these feelings which we find in the higher moral, aesthetic and intellectual values. The feelings that accompany the higher spiritual values are also those which are more universal. Bougle, indeed, maintains that the reconciliation of apparent conflicts between one value and another is sought in social development through man's "polytelism." With social progress not merely do we find values being differentiated but these also are found in conjunction or fusion. We have already seen that a group, a custom or an institution becomes

more stable as it satisfies a multiplicity of interests. In the moral, aesthetic and intellectual judgments of value, we find radiating not class, caste or sectional but universal influences which aid society to resist conflict and dispersion. But the psychological and social explanations of the ordering of values violate man's inner sense of freedom and choice which is just as ultimate a fact of his life as any other; hence a metaphysical explanation of values must be included.

Their Experience in the Immutable Familial Relationships

What is the relation of the ultimate values of truth, beauty and goodness to social relations and institutions? On the one hand, man's mystical consciousness is the ground of his apprehension of truth, beauty and goodness which form the very substance of a Reality that transcends human and social experience. On the other hand, he establishes his relations with the transcendental through stereotyped channels of human impulses and habits, and it is thus the tender feelings and yearnings of resignation and obedience, of child and father love, of self-abasement and self-affirmation, of gregariousness and companionship and of even passionate man-woman love which bind him in social life and relationships, are all implicated in his worship. It is in and through the various attitudes and loyalties in the family life that God who over-reaches all human aspirations becomes revealed as the eternal source and background of the human affective life. But a person seizes only those attitudes for his religious development which are most appropriate to his own nature and social situation and can best bring about a unity of self and the universe. Where the gregarious impulse is the dominant disposition, God is regarded as equivalent to the group spirit. The divine companionship satisfies gregariousness in the ideal plane and, therefore, communion with God or with the angels in paradise is among the most

familiar of religious phenomena. Man's self-assertion finds complete fulfilment when he realises that God's servant is especially favoured with God's grace. The worship of Madonna and the World Mother, of the infant Jesus and the infant Krishna gives expression to the parental desire which is a compelling urge among most individuals. Where the sex desire is strong the religious and love patterns slip into each other. Mystical love, as when the devotee calls himself the bride of God or the woman mystic speaks of God as the Betrothed and the Bridegroom, is a complex emotional pattern in which sex love is divested of its physical significance; it overflows and spills on all sides and into it are introduced other emotional patterns such as the love of parents, of child, of friend and of those who are under some obligation. When a person outgrows the sex interest or his temperament is different, filial love or the love of friend may weave the religious pattern. There are ascending degrees of mystical comtemplation included in such attitudes, the closest mystical communion achieved between man and Supreme Being often expressing itself in terms of man-woman love. Social history and religious tradition also offer images, symbols and ideal forms of conduct, which elicit the appropriate instinctive and imitative behaviour, and its corresponding religious attitudes. In Christianity the image of Jesus set on the Cross has for centuries aroused love and pity for the unfortunate and the fallen, directing man's gregarious impulse to service and devotion to fellowmen. Similarly the Mahayana conception of God plunging himself into the ever-rushing current of world life and sacrificing himself to save his fellow creatures has kept alive among the masses in Asia the ideal of non-violence, good-will and self-forgetting service. Or, again, the Hindu Vaishnava mysticism stressing the image of the individual soul as the bride of God has aroused an ardent and intimate relation between man and the deity. Thus, on the one hand, man's experience of the Holy

is the result of the orientation of his subjective motives and attitudes and of complex social and institutional guidance. On the other hand, loyalties in the religious sphere, as expressed in the sentiments and relationships of filial reverence, or of man-woman love, or, again, of self-abasement and self-affirmation, play the leading rôle in organising man's permanent attitudes and weaving the pattern of his social bonds. The family, the kindred, the group thus come to possess a profound spiritual interest and significance for him, reconciling the concrete and the transcendental in the mutual give-and-take of the human and beyond-human aspiration. Accordingly, the religious attitudes and ideal forms of behaviour, rooted as these are in man's social impulses and desires, strengthen social solidarity and promote the conservation of the highest values. These he intuitively realises as above and beyond any measure in which man has so far succeeded in their realisation. These are quite distinct from the values of other levels and claim priority over all, even moral values. Yet among man's finite experiences it is the social that are most favourable to the discernment of these, to the realisation of man's Oneness with their Becoming. The ideal social relations, are, accordingly, a perfect revelation of the true or the beautiful, i.e., of the Holy in so far it can be discerned in human life and psyche. In phases of social life and relationships, wherever man finds the good, just, and eternal, glimpses of the ultimate reality touch him to the innermost depths and give a new and superhuman direction to his impulses and affections.

Religion Regulates Social Behaviour through Symbols Derived from Familial relationships

Social relations are also transformed. To the individual is projected the substance of all value attitudes, and the infinite dignity and majesty of human personality come in for recognition. Men move men not as means but as ends

in themselves. Between the husband and the wife, between the child and the parents, in family relationships where the deepest joys are felt, a permanence between the individuals is established which excludes all *ad hoc* contractual relationships, and the ends sought are not specific but represent a totality which excludes definition. Religion and the cultural process extend the same intimate, emotionally charged relationships which grow out of natural i.e., biological bonds and from local contiguity to other fields such as between the king and his subjects, between the landlord and his tenants, and between the master-craftsman and his workers. Cultures in the East have sought to modify contractual relationships and instrumental ends in this manner, through the rich symbolism that religions have introduced into daily social intercourse. On the one hand, religion fashions God in a human pattern borrowing its symbols from family relationships. On the other hand, such symbols pregnant with emotions through the recreative experience of mystics become condensed expressions of norms of human and social relations in the popular mind, and regulate behaviour in the work-a-day world.

A New Age of Human Relationships

In all social institutions, family, caste, village community, guild and cooperative, mutual responsibility is not confined to specific contracts or transactions but implies some responsibility of each for all who participate in the undertaking. On the principles of a community of life and expansiveness of self there is a sharing of the daily routine of toil and obligations, achievements, failures and hazards. In India and China such communal institutions as the family, the caste, the guild and the village community have accordingly developed from a natural status to an ethical status based on a framework of social rights and obligations within which economic pursuit is invested with its true meaning. Each

person is born to his appropriate status, carrying its appropriate share in the common land and rural social services. He serves a vocation and dedicates his special talents to some continuous and recognised social station. His sense of professional pride and corporate duty helps to preserve the dignity of labour as well as a high standard of work. In Europe, out of the ruins of feudalism, in which the personal tie between master and man humanised social relationships, the system of wage labour developed, and, though legal freedom was gained, economic freedom has not been achieved. In all societies we find that both the organic and the contractual relationships, organic relationships as between parent and child, and contractual relationships as between master and servant, have had a place in social development. In India and China, the norm of development has been the organic-personal relationship towards which, as towards a standard, all rational-contractual relationships have been made to conform more and more. In Europe the process has been the opposite, and the contractual relationships have been regarded as the norm to which even natural status has been reduced. This has been chiefly the result of the technology applied to industry and commerce in Europe in the nineteenth century which effected a social revolution. Technology and division of labour brought together men in large numbers in a fluid mass who adjusted themselves to machinery of which they formed alien but interchangeable parts. The machine segmentalised man's behaviour patterns. In the factory the industrial workers became interested in fellow-workers not as persons but rather as figures which were of interest only because of their performance that could be objectively evaluated in terms of payments and services. Man's social interaction accordingly became largely a matter of cold calculation guided by contractual and pecuniary scheme of valuation which excluded the play of his organic, instinctive traits and dis-

positions.[1] The increase of specialisation in large-scale mass standardised production removed the ends from the means more and more, and led to the formation and supremacy of groups that expressed instrumental values as contrasted with the intrinsic values which the familial type of groupings seeks. The local and contiguous communities which formerly really counted in forming mental patterns, where the means-ends chain was short, suddenly found their affairs governed by vast, massive and invisible organisations introducing a new social age, "a new age of human relationships." "The Great Society," observes Dewey, "created by steam and electricity may be a society, but it is no community. The invasion of the community by the new and relatively impersonal and mechanical modes of combined human behaviour is the outstanding fact of modern life. In these ways of aggregate activity the community, in its strict sense, is not a conscious partner, and over them it has no direct control."[2] The big business and the national democratic state which grew out of the same forces and conditions developed new mental patterns, habits and institutions contributing towards the establishment of relatively mechanical and impersonal relationships in every field. Men join men and groups join groups, not because they consciously desire to unite in these forms, but because vast, pervasive currents are running which bring them together, and move them like wisps of straw. What Alfred Vierkandt calls "stranger morality," which involves few obligations and in which in the extreme case the stranger is treated as a commodity, replaces the morality in the community type of social life (in the sense of Tonnies). All bonds of group life, the community relations of family, kin, folk or church, are loosened, resulting in an increasing emphasis of the legal relationship of men and the profit motive in the economic life.

[1] *Mukerjee: Man and His Habitation,* pp. 139-143.
[2] *The Public and Its Problems,* page 93.

The Interpenetration of Familial and Contractual Norms

It is against the prevalent tendency of social atomism that there is struggle in Europe for integration and unity in social organisation and in morality. In the East where religion is a most potent form of social control and presents norms of conduct based on ideal human relationships, the vital and persistent modes of association still govern modes of behaviour, and the most fundamental traditions and habits have hardly been affected by the displacement of old, legal and political institutions and the advent of the new industrialism. In India and China the relation between the king and subject, landlord and tenant, money-lender and agriculturist, middleman and artisan, artisan and apprentice, is still interpreted in terms of the natural and ethical relation as between parent and child. In Europe with the supremacy of the romantic family ideal, with the increase of divorce and extra-marital relations, and emphasis of individual advantage in matrimony, even the husband and the wife become partners in a joint concern with its ends circumscribed by their particular means and ends that have lost their vital connection with the ends of the community. In the stress of separate economic interests of both husband and wife, in the protection of the child by the state in his infancy, in his early separation, and accrual of legal status, we find the natural type of the family based on primary duties and obligations being replaced by the rational-contractual type, socially conditioned by machine technology and organised economics.

Status is the result of a primary-organic adaptation to certain vital instincts and needs. It is not something mechanical or external to man, but men are born into it. Contract has also a natural basis—the right to the produce of one's own labour and to a free exchange of that produce for an equal value received. It is based on the ethical principle that each

person should obtain a value corresponding to the good or service he offers in free exchange to another. This creates a legal relation whereby two persons are bound to each other in a system of reciprocity of duties of performance in a regime of freedom and equality. In the East the organic and exclusive relationships which status expresses is now sought to be modified by ideals of individualistic justice from the West, whenever such relationships have inhibited the development of personality. Such reorientation is now proceeding throughout Asia as the result of the gradual infiltration of Western culture from which the ideal of individualistic justice, derived as it is from a social framework of abstract and impersonal relationships, has been derived as a much needed corrective. The notion of individualistic justice and the structure of social and economic rights of individuals are, indeed, filling successfully the gap in the social order in the East, created by the rigidity and exclusiveness of social groups and relationships, the disregard of individual goals, and the enforcement of customary rules of conduct in all phases of human relations. Similarly Europe now strives to develop from the romantic and the contractual family to the ethical family, from political democracy to social democracy, and from competitive industry to industry regulated by the ideal of public welfare and consensus which stresses the duties and obligations in a mutually shared life. Thus the contractual relationships tend towards social and distributive justice, and the relationships of status tend to rise from an external and mechanical conformity to a free and conscious obedience for personal self-realisation on which the fundamental rights of man are based. There is also a parallel tendency towards the reordering of social attitudes and norms which establishes the supremacy of the ultimate values over economic and instrumental values.

No doubt the movement towards the Great Community in Europe could be enormously strengthened by the superses-

sion of the idea of specific contracts, promises or definitely formulated ends by mutual sharing and responsibility, and of the instrumental by the ultimate values in all group relations, following the norm of the unity of self with other selves. This will imply a transformation of groups saturated and dominated by reciprocal advantage and regulated by conventional-rational relationship into those regulated by natural desires and feelings, and the values and virtues of personal understanding, cooperation and sympathy and their elevations and extensions, expressing themselves in mutually shared virtues and meanings. Similarly in the East the traditional virtues and duties which are concerned mainly with face-to-face relations in the family, the local or functional group, the rural community or the guild have become largely irrelevant in the new social situation created by the multiplication of indirect social contacts through machine-technology. As machine-technology spreads in the East there will be seen a shift of emphasis from the virtues of thrift, charity, kindness, and kinship loyalty to intellectual curiosity, vocational competence, comradeship, and humane sympathy which will be both means of personal fulfilment and conditions of satisfying social adjustment in a situation marked by the extension of mechanically intermediated influence and interaction.

Social norms and virtues developed with reference to cooperation, whether in the smaller units of family, neighbourhood group and private business in the East or in the big business on a national scale in Europe, will thus be profoundly transformed. In each case moral practice and tradition will have to be altered, and the primary group sympathies expanded; and herein will lie the fateful ethical choice of individuals adjusting themselves to meet the social requirements of a newly extended industrial and political cooperation or the Great Community. Economic and technical progress without corresponding transformation of social norms and

virtues will aggravate the conditions of personal and social disorganisation.

Values, virtues and meanings are translated into symbols, which set ideals rather than mark actual achievements. Religion, art and literature are accordingly important in presenting norms of human relations for enlightenment and communication, subtly and pervasively converting mutual agreement for biologic satisfaction and economic advantage into a participation in virtues and ideals. At any given time this represents a problem rather an actual consummation in social life. Every society through subordinating force and cunning to reciprocal understanding, through enlightening and integrating wants and satisfactions so that these become more partitive and distributive and become more intense through such sharing, through subjecting rational-contractual standards to social harmony and custom-bound legal justice to social justice builds up human relations so that these may become the seats of the ultimate values. Such an ideal finally rests on a spiritual recognition of the infinite worth of individuals-qua-individuals. It is the doctrine of ethical personalism which alone can maintain the balance not only between a mechanical materialistic culture and search for the eternal values but also between individualism and collectivism, which are both products of modern machine and its technology.

Its application to the field of property and economic power relations as worked out in India is briefly indicated here. India has sought reconciliation between ethical personalism and social morality by means of the religious doctrine of the personality of the deity. The symbol of collective personality in India is the temple deity who is regarded as the person juridical, holding dedicated property used for the purpose of charity, education and social recreations and festivals. The priest has the same rights over the property dedicated to the deity that he would have if he were a trustee

or manager, being at the same time liable to corresponding duties to the community in the exclusive direction of charity which is legally enforceable. The social personality which is not merely the aggregate of individual personalities ought to have in accordance with its real nature and status, a certain representation in the *corpus* of the entire national dividend, independent of and in addition to the voluntary contributions of wealth owned and operated on an individual proprietary basis. This principle underlies the universal practice in India of setting apart a portion of the profits of trade as a matter of course for charity, for the maintenance of schools, orphanages, guest houses, animal houses etc., and for gifts to the professional classes of priests and religious teachers and above all, to temples and deities. These latter depend not on individual charity, reverence or affection, as do the former, but represent a common fund which has a separate and independent entity of its own as individually appropriated wealth.[1]

The Inter-relations between the Economic, the Cultural and the Categorical imperatives

No doubt sociology in Europe is permeated by the conceptions that the state has been rooted in force or economic power and that at its best it is a guardian of the conflicting interests of different classes. The strength of class consciousness which focalises the economic interests of the rival groups has well-nigh defeated the fundamental conviction of the older social science that society is an ethical community. Sociology and politics, therefore, have completely relinquished to economics the tasks of governing the scale and principles of values in the community, and economic and political concepts when divorced from cultural and personal values tend to become tyrants and fruitful parents of injustice. The

[1] See *Principles of Comparative Economics*, Vol I.

social goal in industrial society is thus presented as industrial and political freedom from class rule. A one-class state now seems to be the coveted goal of the scientific organisation of human society. But the individual no more belongs wholly to his class as he cannot be completely identified with his nation or any of the myriad groups to which he belongs. Thus regimentation, whether under communism in power or by the modern representative or caricature of Plato's philosopher-king, ends in coercion by an authority alien to the self and the loss of moral responsibility and freedom. The moral liberty of the individual can be wrought out by him only in familial and organismic relations with his groups; it is not something to be imposed upon him from outside. It is only groups, which have arisen out of the normal give-and-take of spontaneous desires and aspirations rather than those which spring from specific, rationally formulated interests and ends, whose coercion does not deprive the individual of moral liberty and personal responsibility. The class, which represents a segment of man's activities, interests, and personality, cannot become the seat of his highest aspirations, and its reason cannot be his reason, nor its control can become identical with his own self-control. The identification of the class with the individual cannot be taken as a present fact and made the basis of political means by which the attainment of the goal of reconciling freedom with coercion may be furthered. The dominance of economic over cultural and personal interests in contemporary Europe and particularly in the field of politics has warped the development of society and the state.

In all social sciences there is a tendency to disregard the fact that man is a striving, evaluating creature, and to stress economic interests and conditions and not ultimate ends and values. What is worse the economic norms now tend to be logically assumed as valid even for ethics and social philosophy. In the field of social relations, a

dual morality has now come to establish itself, one governing the economic field and the relations between the classes and the states, and the other, the field of the higher cultural and personal relations and interests. The autonomy of economics whose appropriate task is not to arrest and thwart but to steady and shape social change is responsible for the unbalance in the mutual relations and implications of economic with other spheres of social life. It should now be the task of sociology to combat the tyranny of economics and achieve an orientation of the various levels of physical, economic, cultural and spiritual values and a fresh ordering of the mutual relations of the social sciences, for the purpose of achieving a balanced progress of society, state and culture, by a comparative and factual survey of social processes, institutions and relations. That which is temporary and subordinate must be distinguished from the permanent and universal principles of cultural adaptation and progress. It is then that these first principles will become the permanent objects of society's conscious will. Against the "economic imperative," which the autonomy of modern economics decrees, we have now to stress the categorical imperative of the realm of moral values and the "cultural imperative" of the entire realm of ethical and social values. There is an inseparable connection between the categorical imperative and the economic and the cultural imperatives, and as sociology will stress this interrelation, there will also be achieved between economics, morality and culture an inner reciprocal dependence.

CHAPTER XIV

CRITIQUE OF THE CLASSICAL AND MARXIAN THEORIES OF PROGRESS

The Older Conception of Reason as the Key to Progress

The system of economic thought in different epochs is moulded not only by the contemporary conceptions of life, mind and society but also by the prevalent norm of order and progress. When the Physiocratic School developed in France, the whole thought of the age was dominated by the eudaemonic goal and the conviction of superiority of the life in Nature. Happiness, the age was convinced, consists in the greatest possible abundance of objects of enjoyment and in the greatest liberty to profit by them. Natural liberty opens the door among the Encyclopaedists in France to happiness and progress. They believed in the future progress of society towards a state of happiness through the increase of opulence which would itself depend on the growth of justice and liberty; and also insisted on the importance of the increase and diffusion of knowledge. Their influence in promoting a belief in Progress is vouched for by Condorcet, the friend and biographer of Turgot.[1] The notion of social progress, developed particularly by the Abbe St. Pierre, Turgot and Condorcet, was governed by an unbounded faith in the supremacy of Reason and perfectibility of man. Hiding himself in the garret of a friend, and expecting detection and death at the guillotine at every moment, Condorcet yet wrote that it is enlightenment which assures the inevitable progress of the human race. The limitations of Progress are due to man's errors in ethics and politics, which he attri-

[1] Bury: *The Idea of Progress*, p. 175.

butes to mistaken ideas closely connected with errors of physics and ignorance of laws of nature. Thus with an advance in knowledge "the human race, freed from all its fetters, withdrawn from the empire of chance as from that of the enemies of Progress, would walk with firm and assured step in the way of truth, of virtue and of happiness." The same faith that knowledge holds the major key not merely to the improvement of man, physical and moral, but also to the improvement of man's social relations also dominated the active leaders of the French Revolution viz., the Jacobins.

In England as social thinking came to greater precision in the hands of Adam Smith and the Classical economists the same fundamental doctrines were reiterated, viz., the recognition of happiness as the goal of mankind; the stress of education and enlightenment for an indefinite increase of wealth and welfare; and, finally, the recognition of the norms of freedom of enterprise, competition and liberty in bargaining. More specifically it was Hartley and Priestley who developed the theory of necessary and indefinite progress, and Godwin popularised it; while in the hands of James and John Stuart Mill, there was a clear anticipation, based on the idea of Hartley, Priestley and Godwin among the Englishmen and on the tradition continued from Turgot and Condorcet to the Saint Simonians and Comte in the Continent, of the intellectual laws of development in economic and politics as subordinate to a more comprehensive theory of Progress or Philosophy of History.

Malthus' Stress on Instinct and Habit

On the other hand, Malthus, who repudiated the Continental idea that man's laws and institutions and restraining influences of other kinds are responsible for the vice and misery that exist, took up a position that has now become the very basis of the modern sociological theory of Progress. With Mal-

thus man's instincts and habits become the prime movers of social action. If these go against society through the unchecked operation of the sexual instinct resulting in an excessive multiplication, no progress is possible. Yet Malthus' theory of social progress was correct in so far as it gave adequate recognition to man's instincts and habits in social progress, thus departing materially from the standpoint of Condorcet, Helvetius, Hartley and Godwin that it is truth and intellect which work out the laws of human progress. It is also significant that Malthus realised the importance of the role of education in disciplining the blind impulses and in bringing about an enlightened egoism. Further, Malthus and Ricardo developed another significant sociological law of progress viz., the evolutionary law of scarcity, based upon the disparity between numbers and limited resources, which, as we have seen in a previous chapter, underlies the differentiation of classes and of their economic interests in all societies.

In another way Malthus contributed most strikingly towards the development of a more comprehensive theory of progress in the 19th century. It is well-known that it was by reading Malthus that Darwin was led to discover the principle of competition and survival. We read in the *Origin of Species* "It (Darwin's own doctrine) is the doctrine of Malthus applied with manifold force to the whole animal and vegetable kingdoms, for in this case there can be no artificial increase of food and no prudential restraint from marriage." Darwinism strengthened economic individualism and the norms of natural liberty and *laissez-faire* among the economists, and engendered in them an unthinking optimism that all is good in the economic world since nature directs progress, both inorganic and social, through the principles of competition and survival.

By the middle of the 19th century, however, the *laissez-faire* theory had to be given up. Various kinds of beneficent

state activity, and economic and social legislation which regulated wages, hours and conditions of labour, and restricted private contracts challenged the social benefits of free competition, bargaining and enterprise. The trend of modern Governments has been more and more towards paternalism. The economists in England and America were forced reluctantly to accept 'state interference' as a principle, though adhering to the older creed of competition and the economic man. In Germany since the inauguration of the Empire economic nationalism and enlightened despotism co-operated in initiating a kind of bureaucratic socialism, which was far different from the haphazard industrial progress which was the outcome of individual enterprise in England and America. As the *laissez-faire* theory was discredited in the economic world, opinion among the biologists as regards the efficacy of competition and struggle was itself considerably modified. Kropotkin, Thomson and Patrick Geddes showed that mutual aid, cooperation and parental care play as important a *rôle* in animal evolution as competition and struggle. Many animals have been found to be social, kindly and self-subordinating. Sociability has been an aid to them in the struggle for existence. In human communities, which exhibit strands of cooperation and division of labour that go back to simpler animal societies, sociability has a greater survival value because of man's more developed mental organisation. The growth of the mind and the possibilities of psychical integration through such factors, as suggestion, sympathy and imitation, subordinates the old animal principles of struggle for existence to other principles.

The Role of Social Inheritance

This new evolutionary outlook has received special support from developments in anthropology and social psychology. Anthropology has shown that society is the school in which men learn to distinguish between right and

wrong, and that all institutions, faiths and creeds that regulate individual conduct derive their authority from the aids and facilities these provide to individuals in their adjustments to particular milieus. Morals in this view have their basis not merely in reason but in ingrained feelings of approval and disapproval, which subserve the functions of social and individual adjustment. Social psychology also stresses that it is certain innate tendencies and dispositions which man shares with animal, that form the raw materials of his social and economic activities and relations. As to the progress from the primitive to more advanced communities the broadening and deepening of the natural social dispositions and habits are as important as the development of intelligence and the aggressive traits, which are selected by a regime of competition and sharp practice. But far more important than man's innate capacities, either intelligence or his social instincts and habits, is the *rôle* of social heritage in his progress.

The Need of Balancing of Mental Patterns, Interests and Values

The theory of social progress, so briefly put, takes us far away from the norm of economic individualism based on the notion of man as a rational and critical person and on the stress of his mechanical and contractual modes of behaviour and from the theory of a fixed definitive type of social and economic institutions. Man's impulses and interests are varied and multitudinous, so do his institutions assume a variety of forms expressing as these do various patterns and organisations of impulses and interests. A segregated set of economic drives cannot alone explain economic activities and relations. On the other hand, man's external heritage of institutions, codes and traditions in which he has registered his scale of valuation always plays the dominant rôle in regulating the artificial and contractual aspects of social life and in directing economic aims. Like man's impulses and interests

these also go on evolving and integrating. Institutions stimulate, not reflective thought, but the contrary. Social habits, codes and institutions fit into the system of economic and political relations and groups, and control and select behaviour in all its phases. The institutional pattern expresses, integrates and coordinates the complex variety of man's instincts and desires. It disciplines, reshapes and grades them into social norms, culture motifs and hierarchies of values through which he orients himself on all ethical issues. In the modern phase of social development in the capitalistic industrial west, a harmonious working balance of instinctive patterns has been profoundly disturbed by the untamed machine economy and standardisation and the invasion of norms derived from the economic and contractual fields into every field of life. Many fundamental instincts and interests are inadequately fulfilled by the culture pattern of the Great Society, built by steam and machinery. These accordingly stand out rebellious, and the Great Society along with the essential institutions of modern capitalism now seem gradually to yield to the supremacy of the unsatisfied impulses and values. Human progress becomes stable in proportion to a smooth-working integration of man's varied impulses, interests and values and the external registering and confirmation of such harmonious blending in his more fateful cultural legacy which surrounds him and his actions.

The Spencerian Optimism, an Essential Feature of Economics

That modern social progress has become lop-sided and disharmonious is chiefly due to the phenomenal material progress of the 19th century which was essentially the epoch of the most varied application of science and knowledge to the satisfaction of human needs. Man's technological discoveries and achievements were only outstripped by the advances in geology and palaeontology, which transformed

man's perspective in time, and envisaged his un-thought of progress from crude, humble and brute-like beginnings. The optimism was endorsed by two prevalent views of progress which still hold the field. Herbert Spencer's synthetic philosophy was a gigantic effort to prove the logical character of human progress as part and parcel of the cosmic process, and governed by the same principles. Progress, in his view, can neither be delayed nor hurried but must follow through gradual adaptation and change in its logical order and completeness. It is the world process from the simple to the complex, from undifferentiated homogeneity to differentiated heterogeneity that leads man on and on through the variegation of his tools and implements, his economic, political and ceremonial institutions, through his laws, freedoms, and recreations, and this is progress which applies to culture as an integral whole as well as to its different manifestations. Progress, according to Spencer, is not an accident, not a thing even in human control but a beneficent necessity. "Even in evil the student learns to recognise only a struggling beneficence. But above all he is struck with the inherent sufficingness of things." All change here becomes progress. All specialisation, no matter where it leads to, becomes the road to progress. Man's own aspirations and strivings are here irrelevant. The superficiality and futility of this doctrine are obvious.

Yet Spencer's theory of progress through differentiation and specialisation was accepted as a first postulate in contemporary economics which thereby sought to stamp *laissez faire* with a sort of 'biological predestinarianism.' As Herbert Spencer's *First Principles* was appearing Karl Marx, who was working in the British Museum in London, published his first volume of *Capital* in 1887. Marx belonged to the Hegelian tradition of thought, which introduced into the theory of progress two major new ideas viz., the conflict of two elements in the development process, which become

reconciled in a new concrete, and the conception of the state as the realisation of concrete freedom, reconciling the opposites, viz., law and morality. The Hegelian philosophy introduced a profound organic conception of civil society as the realisation of both rights and duties in various social institutions, which was in sharp opposition to the prevalent individualism of the English Utilitarians and biologists. The essence and drive of progress now became the Idea, which reveals itself as a series of materialised forces and forms of life and as the human soul and the legal and moral order of society, thus filling the emptiness of Herbert Spencer's cosmic process. The dynamic of history which unfolds in an orderly manner the Idea through the reconciliation of sharp opposites in the social order became the key-stone of Marx's system. Yet though in Marxism, economic progress had the inevitability of a logical necessity as in the Hegelian dialectic, or the Spencerian Evolution, he stressed in economics the human direction of economic evolution, and thus combated the established view which Darwinism was encouraging viz., that economic organisation has grown up spontaneously or tentatively, and that personal freedom is necessary for the working out of the laws of economics subsumed under general cosmic laws. From this standpoint Marxism contributed materially towards demolishing the dogmatic optimism, which Spencer's theory of progress and the older established norm of individual liberty had woven into economics.

The Marxian Pessimism and Subordination of the Ethical Issue to Economic Necessity

But the *must* in Marxism was equally if not more significant. In Marxism the belief is fundamental that the emergence of a new economic and social order is independent of the will and action even of the suffering workingclass which brings about the change. The conflict which leads to the establishment of communism is not engendered in the mind

of man but exists in physical facts objectively in the modes of production and exchange. It is thus "not man's brains, not his better insight in eternal truth and justice" but the dialectic process which ushers in the new order. Engels says "The means of getting rid of the incongruities that have been brought to light, must also be present, in a more or less developed condition, within the changed modes of production themselves. These means are not to be invented by deduction from fundamental principles, but are to be discovered in the stubborn facts of the existing system of production." The inevitability of progress emanating from the conjunction of economic facts and circumstances is as mechanistic as the Spencerian belief, and like it only the product of the prevalent facile optimism of the age, though no doubt the ultimate goal of society, according to Marxism viz., an "association in which the free development of each member is the condition for the free development of all," supplies the incentive for the inhuman sacrifice of the present for the future which was absent in the "bourgeois concept of progress." Thus the "single-track idea of progress branches out into the universal development of free individuals in a free society."[1] The same mechanical outlook is also apparent in Marx's exclusive concentration on the logic of economic forces to the neglect of man's ethical claims and obligations as the dynamic of progress. On the subject of man's rights and duties which in Hegel's synthesis were objectified in social institutions, Marx was completely reticent. In Marx the denial to the workingclass of their right to the whole produce of labour effects no doubt a moral revulsion, but this has no stable basis in truth. In his belief in a bare economic philosophy of progress, in his dependence on class interest and feeling and his subordination of the ethical issue to economic neces-

[1] Karl Korsch: *Karl Marx*, p. 205.

sity in industry, Marx merely exaggerated certain intellectual trends which warped contemporary economic thinking.

All History is not Economic History

Economics, according to Karl Marx, supplies the only key to social process and human progress. All great movements whether in religion, art or morals have its origin in economic change. All history is economic history. Even epoch-making intellectual discoveries are sought to be connected by the Marxists with economic causes. For instance, "The very Reformation is ascribed to an economical cause; Peter's pence proved too oppressive. The Thirty Years' War owed its length to the existence of a country proletariat in Germany which supplied troops without limit. The Crusades were largely due to the "land hunger" of the barons. Marx himself connects the Animal Psychology of Descartes with the growth of the Manufacturing system; "animals are machines" could not have occurred to a mediaeval writer."[1] The materialistic interpretation of history has found its adherents not only among the socialists but also among many orthodox economists, while studies in legal history, criminology, art and culture have sometimes accepted economic causes as guiding principles.

No doubt in the earlier stages of social development as well as in more modern phases under conditions of heavy population pressure and struggle the scheme of culture is largely oriented towards utilisation and economic or technological efficiency. But the development of culture implies man's gradual and increasing freedom from the cruder forms of ecologic and economic control. Culture implies different levels of experience, and though the ecologic and economic organisation represents the basic ground patterns of spatial distribution of population and utilisation of resources, achieve-

[1] Bonar: *Philosophy and Political Economy*, p. 367.

ments in the domains of intellect and imaginative experience also bring about profound economic changes. Introduced among a simple fishing folk, Christianity brought about an economic upheaval over a large region through an appreciation of the worth of the individual. Buddhism through a similar recognition of human dignity and stress of love and compassion introduced a missionary zeal which brought about agricultural and economic transformation of backward cultures in Eastern and Central Asia. Even now the supersession of Lamaism and Shamanism by Buddhism is contributing towards the taming of shepherds and pastoral communities and the rise of agricultural colonies in the inhospitable stretches of Mongolia and Turkestan. Weber in criticising the Marxian interpretation of history tried to analyse the influence exerted on economic life by a conception purely spiritual in origin, the Lutheran idea of 'calling,' and the Calvinistic idea of 'justification by merit'; he also sought through an examination of Indian, Chinese and Hebrew civilisations what the rationalistic capitalism of the West really signified, and what other possibilities of the religious influence on the formation of society it had excluded. The intellectual upheaval known as the Renaissance caused the development of science which led to modern industry. Technical progress originated from technical causes, and the institutional changes which accompanied them were their effects rather than causes. Prof. Ayres observes: "The later Middle Age witnessed a technical revolution then without precedent for magnitude and speed. The "spirit of adventure" derived from ship-building, seamanship and navigation, which in turn derived from earlier ship-building, seamanship and navigation. The "capitalistic spirit" of pecuniary rationalisation derived from book-keeping, which derived from the use of paper and the Arabic numerals." Culture is many-sided and exhibits not

[1] Brock: *Contemporary German Philosophy.*

merely varied manifestations but also convergence in technical and cultural transformations. No progressive culture can be envisaged as mere specialisation of economic or technical interests. Technological division of labour is essential to progress, but not social division of labour. An excessive social differentiation into classes and increase of social distance delimit or warp the development of personality through an over-powering class and status consciousness. Culture, when exclusively directed to specialised channels, whether economic or military efficiency or religious quest, gives rise to individual unrest or deviation and social disorganisation or leads to the deterioration of the average level of living.

The Inter-relations between Different Phases of Culture

In spite of the Spencerian law of specialisation and the Marxian law that the course of cultural evolution directs itself through the specialised channel of economic needs and production, social evolution, in order that it may not meet with reverses and set-backs or may not mean regress, represents a harmonious working balance of group activities and experiences of different levels and categories. And as a matter of fact it is the experiences in cultural, aesthetic and spiritual fields, which not merely give the clues to the degree of civilisation but also control and subordinate the bare economic norms and standards. Economic history, however crudely treated, must give recognition to the influence of the culture pattern as it expresses itself in the legal framework of property, freedoms and restraints, and governs the "stubborn facts"—the modes of production and exchange. And the culture pattern is a mosaic woven as much by the *ethos* and social history and contacts of a people as by the accumulated force of economics. August Comte stressed the need of viewing and exploring the social organisation as a whole. The elements of a given social state, according to him, should be considered and pursued

together and in common. He has observed, "Not only must political institutions and social manners on the one hand, and manners and ideas on the other, be always mutually connected; but further, this consolidated whole must be always connected by its nature with the corresponding state of the integral development of humanity considered in all aspects of intellectual, moral and physical activity." Of course in Comte's law of progress, it is not the dynamic of economic succession but that of intellectual development which supplies the key; and the master-key to the history of intellectual development is supplied by the Law of the Three States.

In Herbert Spencer the conception of human progression as an integral, composite whole was also present though this was most developed in Wundt's *Volkerpsychologie* and in the recent functional school of anthropology. Wundt pointed out that the drawback of the older evolutionists is the neglect of the cooperative functioning of the group as a whole and the analysis of cultural data as if these spring from individuals in a social void. In a modern theory of progress the interaction of individuals and groups and the integration of separate group standards and loyalties receive emphasis in striking contrast with the older rationalism and individualism from which economics has not as yet completely weaned itself. In Karl Marx the economic order is still a mechanical aggregation of discrete, unthinking individuals, and the class consciousness is treated in the abstract *en masse* without reference either to the varied motives or the myriad groups and institutions in which these normally express and stabilise themselves. But Marx departed from Spencer in supplementing the notion of gradualness of change by that of crisis or cataclysm. In the hands of the later schools of socialism and communism this idea became a war-cry in the form of 'evolution through revolution,' which had significant social consequences. The Syndicalist Revolution which is the

outcome of a sudden cataclysm resembling the spurt in creative evolution, as envisaged by Bergson, is as mechanistic in its conception as the orthodox Marxian conflict. In the Marxian analysis, as we have already seen, it is not the interplay of human motives and interaction of classes and institutions which bring about political upheavals but rather the laws of physics. "This conflict between productive forces and modes of production," observes Marx, "is not a conflict engendered in the mind of man, like that between original sin and divine justice. It exists, in fact, objectively outside us, independently of the will and actions even of the men that have brought it on."

Progress, a Task of Social planning, Evaluation and Striving

The present problem of progress which confronts us is a challenge to social control and planning. Progress cannot be automatic. It neither depends on the stubborn necessities of economics nor inherits all the organic and social advantages of specialisation and division of labour. Technology with its specialisation and standardisation, which invade every aspect of human life and relations, renders old achievements obsolete, and demands constant re-adjustments by making obsolete old values and virtues and bringing new ones into prominence. On the other hand, the speed of technical advance permits inadequate intervals for adjustments to be completed and intellectual norms and moral standards to be perfected. Thus progress is limited by the disparity of technological advance and institutional achievement. Man's acquisitions of habits, and aesthetic and moral sensibilities have been out-stripped by his technical progress, which has been used for anti-social aims like crime, exploitation and war. Progress in technique and applied science accordingly leads increasingly to social mal-adjustments, and impedes advance of mankind as a whole. Man with his

hypertrophy of tools and weapons with which his mastery of technical means has endowed him accordingly shares the embarrassment of the Mesozoic reptiles which grew horns and tusks too freely, not evolving the brains which might have directed their use, and prevented the extinction of the animals.[1] Progress, accordingly, cannot be wholesale; it is to be won piece-meal by individuals and societies through control and selection of economic and social arrangements. Biology has, indeed, been disillusioned in that the stock to which human individuals belong has improved so little in thousands of years. For the elimination of a few unfavourable traits, which prevent the smooth working of a better social arrangement, thousands and thousands of years may be necessary. It is the framework of the society, traditions and customs which slowly and gradually foster variations that may be congruent with progress, and eliminate those that are at variance. Progress implies, of course, a certain improvement of man's organic heredity, but his social heritage plays a more important rôle in bringing about progress slowly but surely by acting as a sieve for the selection of heritable new departures which arise from within. The social heritage also brings about a certain consistency in man's evolution. If this heritage be destroyed or squandered man will have to begin again where he stood before it was formed.

Since modern biology does not lean heavily on the transmission of acquired characters, and finds the rôle of social organisation and traditions of far greater significance for man's progress than his organic make-up, the conception of progress in sociology is changing to that of meliorism, which, as Viscount Samuel writes, "may become a key-word—the discard, that is to say, of both optimism and pessimism, with emphasis, on the need and hopefulness of effort to make things better." Another root idea is social planning and direction. Social

[1] See H. G. Wells: *The Fate of Homo Sapiens*, p. 29; also Gerald Heard: *Pain, Sex and Time*.

planning under the auspices of democracies brings to the fore the importance not only of the collective purpose that motivates society and its various institutions but also of the voluntary efforts and associated virtues of individuals. The three fundamental elements of the modern notion of progress, accordingly, are the idea of hopeful striving, the idea of collective planning, and the idea of ascent of values which deepens, enlarges and speeds up the whole movement. Contemporary economics has not assimilated to itself none of these three elements of the modern notion of progress, but is dominated either by the facile Spencerian optimism that all economic change is progress or by the pessimistic Marxian dogma that progress is automatically achieved through the strategy of class struggles. Progress in the concrete is a planned and coordinated drive based on the application of a well-thought out technique and re-orientation of social values. The Classical English and Marxian theories of progress stressed values of the economic level, and gave a wrong conception of social process and experience. The heritage of civilisation exhibits man's varied external and precious acquisitions in different levels of life. The future course of progress lies in fact in the invention of the social machinery which may maintain a harmonious working balance between the biological, economic and spiritual norms, and between the social processes involved in these.

Indices of Progress in its Different Levels

The criteria of progress in the successive levels of social and individual adaptation may now be reviewed. It is obvious that these criteria cannot be presented in their totality since the whole of man's personality is implicated in a full and complete conception of standards. We are giving here what may be regarded as those which carry general approval. These ranked criteria or items have been reached by deductive analysis and reasoning. But these need not be considered

subjective entities. Different societies may be asked to express judgment relating to the major criteria and establish relative rankings or weights for them.[1] The value system will then closely approximate to the itemized statements as presented in the following table. An appeal to facts through scientific tests of measurement of group attitudes, as adopted by Allport and others, will yield a more authoritative scale of values beyond the uncertainty of personal opinion and speculation which may contribute to establish greater unity between theory and practice in the social sciences. Social values, as socially accepted and completely measured data, should be treated in the same manner as other scientifically observed and measured social phenomena. Such procedure will in time bring about the much needed integration between the mechanistic and teleological standpoints in the social sciences.

CRITERIA OF PROGRESS

Factors of Progress	Ecologic level	Economic level	Sociological level
Social inheritance.	Density of Population and Continuity of Culture (Measurable).	Technological Efficiency and Social Capital. (Measurable).	Solidarity and Justice, Syncretic Art and Religion
Individual acquisition.	Average Expectation of Life, Intelligence, Mobility and Sociability. (Measurable).	Average Efficiency, Income, Leisure and Consumption (Measurable).	Appreciation of Ultimate values.

The above characterisation of the criteria of progress is broad and comprehensive, and is based on the evolutionary conception of successive orders and levels of man's environment,

[1] See Dodd: Progress Inductively Defined, *International Journal of Ethics*, Vol. XLIV.

and the movement of both individuals and of society as a whole (see Chapter II). It comprehends the items and indices of progress laid down by Willcox, Nicefero, Dellepiane and Hertzler. Clarence Case's major categories of Utilisation, Equalisation and Appreciation also fall into the last two divisions. It is an enhanced appreciation of the "good" of life which facilitates the process of equalisation. The two categories can be easily unified. The criteria in the ecologic and economic levels can be statistically measured, so that progress implies a quantitative increase of the items proposed. With these we obtain a more sustained, prosperous biological balance, which serves as the basis of cultural and spiritual advance.

More important than the Spencerian law of differentiation and integration for human progress is the law of value viz., the enlightened and deliberate societal subordination of the norms and processes in the physical and economic levels by those in the cultural and ethical. An uplift of morals may improve the average expectation of life. A refinement of appreciational life may promote efficiency, endurance and mental creativeness. "The surest way to the real is often through the ideal." On the other hand, the denial of social justice and a false sense of valuation undermine economic efficiency as well as the physical and mental vigour of the community. It is only an ethical recognition of the interests of generations yet unborn that can terminate the spendthrift management of resources and callous interference with extra-human nature that turn the scales of ecologic balance against man's sustained prosperity. In a smooth working integration of the different levels of life, which is the essence of progressive adaptation, a sustained economic efficiency is reached through the intelligent conservation of extra-human as well as human resources, on the one hand, and the embodiment of justice in all economic and social relations, on the other. It is the continuity of man's historic, cultural legacy and an expansive standard of material

living and leisure which foster the increasing refinement of the appreciational life, which directs progress. The sense of appreciation of the worth of the individual is the abiding stimulus to the shared living, that alone can prevent the inequalities of man from becoming handicaps to efficiency and organisation. It also subordinates efficiency and organisation to the permanent needs of human nature. The "good" consists not merely of health, mental vigour and wealth for individuals, and a moderately dense population, cultural continuity (identified with Progress by the historian Ranke and his school) and economic efficiency for society, but also of the higher cultural and spiritual values, belonging to an environment beyond the range of objective appraisals.

The sociological criteria of progress guide and control the norms and processes of the biological and economic levels. Progress here becomes a process in which the "good" belongs to all in order to be the "good." Such a process implicates the development of the human soul as a result of which man so enlarges his consciousness, and realises his oneness with fellow-man and with life as a whole that his "good" stands for a sharing which increases its range until it comprehends the whole universe. May it not be that man in whom physical evolution has ceased for an unusually long period, and technical evolution now shows decadence in the form of increased specialisation without coordinating purpose, and is unaccompanied by an advance in his moral and human relationships evolves psychically into a being with a shared and enlarged consciousness which gives him direct insight of the nature of the objective and cosmic values, the indissoluble human trinity of truth, beauty and goodness? Progress implies the realisation of truth, power and beauty which give personal meaning to human life, and link man with fellowman in a community of thought, feeling and achievement—through the attainment of knowledge which increases common insight and mutual understanding, through the gaining

of power, through cooperative endeavour which increases comradeship among fellow-workers, through the appreciation of beauty which increases intelligent and discriminating sympathy.[1] Progress is thus characterised by the enrichment of individuals and societies in three successive levels along the line of a quantitative and qualitative elaboration of the criteria set forth, the movement in the realm of cultural and spiritual values, guiding and democratising, and hence enlarging, deepening and accelerating the whole process. Progress thus is essentially integral and synoptic. Degeneration accompanies fractional, one-sided development or specialisation in one level of life and experience. Progress is the even, smooth march of the biped; the halting or limping locomotion of the crab or the lobster threatens decline and degeneration.

Planning for Correcting Mal-adjustment and Deterioration

There is no doubt that in modern industrial civilisation a crisis has been brought about due to the disbalance between man's increase of technological efficiency and industrial capital, equipment and machinery and the relatively slow growth in the appreciation of ultimate values and transformation through these of the whole system of economic and social relations. The penalties of mal-adjustments due to man's technological advance out-running his instinctive life as well as the traditions and framework of society must not be permitted to be borne only by the working class who can

[1] Henry W. Wright interprets moral value as consisting of the all three objective values—Truth, Power and Beauty—linked together by the feature or function which all have in common in contributing to one inclusive system of associated life. (See his articles on Objective Values in the *International Journal of Ethics*, Vol. XLII, p. 267). The Hindu view of morality also stresses the realisation of *Satyam* (truth), *Sivam* (Power) and *Sundaram* (Beauty) understood in the light of their common effect of making the individual an agent of an all-inclusive, universal Whole (*Purnam*).

bear these least. Fresh technological progress without previous social engineering so as to avoid mal-adjustments leads to serious disharmonies in the body politic. In such a crisis economic planning, which may renovate social harmony and justice as functions of the entire social order and abolish the evils of autocracy in industry, unemployment, insecurity and loss of creativeness of the workers is called for to check a lop-sided specialisation. On the ecological side, man's speedy disposal of nature's limited resources to bolster up his artificial standard of industrial living has introduced difficult problems of conservation of soil, plant, mineral or water resources on the answers of which largely depends his economic stability. His own a-symboitic multiplication and unnatural aggregation in cities and towns and his artificial accumulation of swarms of one species of plants and animals in fields and ranches have led to the propagation of previously rare diseases. In spite of the improvement of mass hygiene and sanitation, man seems to show less immunity to disease. Man's average expectation of life has no doubt lengthened at the amazing pace of 40 years per century. But the gain is confined to the early years of life. Man's fight against old age has not entirely succeeded. The wear and tear of life and the increasing delicacy and complexity of modern industrial civilisation have often brought about premature senility and decline. War, which is largely due to the economic greed of societies elaborately organised into combative national policies in fields of industry and trade, has serious dysgenic effects and now on a scale much larger than in the past. H. G. Wells trenchantly observes: "War has become a process of destruction that spares neither age nor sex, it is no longer a selective elimination of the surplus young men; it is a colossal wastage of material resources, a rapid disintegration of the social organisation, robbed of all the glories and gallantries that once adorned it. In the past it was a corrective and almost tonic process. Now it has become a

rapid wasting disease, a galloping consumption of the human species."[1] A variety of physiological and social causes which have not been adequately analysed has led to a striking fall in the birth-rate in modern industrial civilisation. In societies where the poorer strata show a higher fertility the race as a whole is deteriorating. It is recognised that bad health and low intelligence are the major causes of poverty, and selection favours these. The rigid social stratification which capitalistic industrialism fosters promotes differential fertility of social groups. It is uncertain which social groups possess socially important traits, how far the present industrial system is selecting unfavourable traits, such as cunning and aggressiveness rather than creativeness and sociability, and whether the differential birth-rate means the multiplication of those who are innately inferior. Our knowledge of biology and psychology must advance in order that we may plan a social system in which the socially desirable innate characters can be fostered, and society becomes not merely biologically stable but also progressive. Every society must show some kind of social divisions, but both social distance and mobility must be such as to favour those most whose organic make-up is most important for carrying out the aims of that society. Biological and social problems accordingly seem organically interwoven with economic ones; our inadequate understanding of these inter-relations and interactions precludes constructive social planning on all fronts.[2] Thus progress becomes fractional, and in that proportion chequered and imperfect.

Progress consists of man and his successive levels of life coming into stabler and more harmonious integration. It is an all-round harmonious advance along the three levels, ecologic, economic and sociological. Every advance must be

[1] *The Fate of Homo Sapiens*, p. 47.

[2] These problems have been discussed in a forthcoming publication, *The Political Economy of Population.*

judged by progressively higher criteria derived from the successive levels of adaptation. The more fractional the advance, the more imperfect and unstable the progress. Progress implies not merely stabler and better institutions, man's accumulation of knowledge, experience and power, his external heritage but also healthier, more efficient and finer individuals, completer human beings transmitting the fruits of both organic and external acquisitions to the future.

The modern age, with its clearer insight into man's heredity and nurture, his motives and conduct, may not share in the optimism of the 18th century French philosophers or the confident intellectualism of telic social progress advanced by Comte and Lester Ward. But that deliberate social planning should control the forces both of nature and man is now coming to form an article of faith of the social sciences. The idea of Providence of the middle ages and of Progress of the 19th century formerly kept alive man's energisings and aspirations. The idea of social engineering to deal with every problem of human mal-adaptation and deterioration as it arises through carefully planned social arrangements, through the stress of equalisation and justice in all human relations, and above all through re-education of the collective mind should alike move the hearts of the present generation. Modern biology and psychology have contributed to destroy the old optimism in respect of the change of human nature, the quick and deliberate improvement of traditions and institutions and the consequence of individual efforts. But this all the more encourages us, with our feeble powers of foresight and full knowledge of the limits of our activities, to discover and contrive new social arrangements and methods of levelling up collective human nature as best as we can. Without this faith in progress, progress whether of individuals or of societies will be a chimera; without the sobriety in spirit and caution in action born of our new insight into human affairs disillusionment will come easy.

CHAPTER XV

THE GESTALT OUTLOOK

The Organismic Standpoint in the Basal and Social Sciences

Contemporary thought stands against the mechanical views of life and mind, society and values. The concept of relativity has changed the classic foundations of the physical sciences, and the doctrine of indeterminateness is now claiming acceptance with reference to the ultimate elements of matter and energy. In geography, which among the natural sciences is one of the immediate bases of economics, the ideas of determinism, influence and control are now discarded, and we look upon the living creature (including man and the social community) and the environment as mutually interacting parts of the processes of life functions in a cosmic drama in which the stage, scene and the actors lose their distinction. In ecology, the fundamental logical working concept is that of the biotic community which includes plant, animal and human associations that cannot be treated in isolation from one another or from the entire ecologic complex. The biotic assemblage is a moving, reverberating system with subtle inter-linkages. Thus the pattern as a whole, rather than the parts, becomes the chief object of scientific interest, in fact the natural unit for ecology as science. Fundamental in modern biology also is the notion of the maintenance of a specific pattern of life through changes of the organism's structure and functions, which have meaning only with reference to the former. The articulation of life's pattern thus becomes more significant than a mechanical process of individualistic adjustment. Similarly in psychology

the theory of the Gestalt gives us a picture in which the concepts of mind and drives or urges have given way to the observation of certain states and processes, which organise themselves into a specific pattern in a given situation. The organism in Gestalt psychology reacts to an actual constellation of stimuli by a total process, which as a functional whole is the response to the whole situation. We see here a complete departure from the abstractive, neglective interpretation of the older psychologies. Thus even in the basal natural sciences, the conception of the total configuration or pattern has become much more significant than an analysis of separate factors and functions, which are no longer seen in isolation. These sciences have accordingly become more uncertain and hesitating in their ultimate conclusions than in the past.

All this applies much more to the social sciences. A Gestalt sociology is the name applied by Case to an important trend of sociological thought in which a similar give-and-take of the various orders of environments and the group processes and activities is clearly discernible. A slight change in the environment or a new social element or event is seen to alter the whole social situation. For social phenomena the number of causes is indefinitely larger, while it is far more difficult to study the effects of any one factor in isolation. Besides in social happenings both cause and effect continue and their reciprocal interaction endures. A social institution, tradition or attitude is a collective review or judgment of social happenings, which persists beyond these events offering to the individual easy guidance in his behaviour. Again, since there is an element of individual choice, an institution must be distinguished from an event, or even complex patterns of events. Thus Cohen observes that in social sciences "a causal relation means some connection not between individual events, or mere sums of such events, but between diverse patterns of distribution, sometimes of the same group of events. The causal relation or the interaction between them is predomi-

nantly a matter of logical analysis of groups of phenomena."

In the field of ethics there is also a recognition of the principle of relating will and effort to the various levels of values in the concrete situation of the moral universe. The new ethics includes not merely the principle of autonomy as a universal basal law to which a clear expression is given in the Kantian demand to "act from duty" or the Fichtean demand to "act from consciousness of duty." But beyond this general and still formal demand, ethics speaks, still in the ethical field, and with concrete reference to their content, not merely of moral duties, but also of legal duties, political duties, religious duties, duties of the entrepreneur, the scholar, the artist, briefly too, of the duties of one's calling etc. Conscience, according to the new ethics, is the totality of what individual experience and effort yield in the way of moral insight in the man's own particular situation as contrasted with the accumulated products of authority and tradition. "Every individual," observes Scheler, "ought to undertake the culture of the values accessible or applicable to him alone, and this applies also to groups, nations, races or civilisations. To every phase and every moment of development belongs a specific relation to value that will never recur, involving facts and duties that belong in the nexus of the objective order to just this moment, and, if unfulfilled, are lost for ever."

The Stress of the Total Experimental Situation

The nineteenth century was an era of balanced ideas and symmetrical structures, formulated by the master-minds. The systems of Smith and Ricardo, Hegel and Comte, Marx and Spencer all show dogmatic thinking, antecedent to the development of an adequate scientific technique in the study of social affairs. Such systems constructed on the immature, current philosophical and scientific notions of the age, have had their day, and though these helped towards intellectual analysis in the past their inclusive and pretentious formulas

have now become hindrances to the study of the mobile and interacting factors and conditions of social behaviour. The attention today in social as well as natural sciences is focussed on the experimental situation rather than upon supposedly absolute laws. In physics the fundamental laws governing matter and energy have now become flexible or of the nature of logical truisms, and the whole subject-matter of exact science in the opinion of Eddington now consists of pointer readings and similar indications. "Something unknown is doing, we don't know what—that is what our theory amounts to." Experimental biology has revealed not the operation of absolute laws but the increasing complexity, as evolution progresses, of the factors of heredity and environment which determine the organism's structure and functions. Psychology now deals with the laws of human nature which represent trends arising out of concrete total situations rather than rigid laws which are extensions of biological laws. In ethics, politics and economics the situation is more mobile, interactive and uncertain. Both over-simplification of the objects of study for dogmatic system building, and quantitative methods of measuring results by money, votes or a calculus of satisfactions become inadequate due to the co-active, elusive and malleable character of the human and social materials.[1] The older fallacy in the social sciences has consisted of interpreting social activity, whether in economics or politics, in terms of the individual, forgetting that group contacts convert the physiological and psychological individual into the essentially social person. With the shift in the centre of interest from the atomic and rational individual to the social person and the cultural group situation, the key to the understanding of the behaviour of man is to be sought in his social

[1] The Doctrine of the Situation has been recently stressed by Dewey in the social sciences in the Symposium, Vol. I, No. 1, 1930 and in Wasd: *Intelligence in Politics*, pp. 96-113.

contacts and integrations, institutions and values, which surround, organise and over-reach it.

In the emergent interpretation of evolution, new things not computable, emerge as evolution advances. "Concretely it holds," observes Jennings, "that such new things and new modes of action distinguish the living from the non-living, the sentient from the non-sentient, the reasoning from the non-reasoning, the social from the solitary." No longer can biology be coerced into suppressing results which are not discovered nor expected from our knowledge of the non-living, and non-sentient parts of nature. Psychology also can no longer follow the easier road in the interests of method by concentrating upon the objective and physically observable reactions of the individual, ignoring the introspective, subjective aspects of the behaviour patterns as a total situation showing different levels for study. Such a change in the attitude of biology and psychology must alter our fundamental categories in the social sciences which had been led by the leading strings by the obsolete basal sciences.

The present conviction of the essentially symbolic unreality of the formulations of the physical sciences, the notion of the region as a system of mutually interacting parts consisting of the plastic environment and more plastic man in modern geography, the notion of patterns of life as progressing wholes consisting of increasingly differentiated, yet reciprocally dependent plant, animal and human communities in ecology, the notion of reactions in psychology as a total process which is a functional whole representing the adjustment to the whole situation, suggests that no progress in the social sciences is possible as long as we adopt methods of analysis that abstract either the individual, group or cultural aspects to understand a social happening, which represents a sociological "whole situation."

New Methodology for Interpreting the Whole Culture Situation in the Social Sciences

There are already discernible certain striking changes in methods of interpretation in all the social sciences, showing a clear recognition of the significance of the "whole situation." The functional school of anthropologists have a clear appreciation of the importance of viewing savage culture as a whole and studying the family and kinship organisation, magic and taboo, law and social control as significant only in an ethnological "total situation." Instead of following the abstractive, neglective analysis and pulling out single institutions from the complex texture of culture, Lowie, Kroeber and Margaret Mead in America and Malinowski and Firth in England are all understanding and interpreting the patterns of culture as a whole. In law the school of sociological jurisprudence, founded by Post and Kohler in Germany and Roscoe Pound in America, stresses the intimate importance of ideas of right and justice with the concrete purposes and interests, the particular legal situations in time and country. The change is from a political or ethical idealistic interpretation to an engineering interpretation, which consists in thinking not of an abstract harmonizing of human wills but of a concrete securing or realizing of human interests in a whole situation. Similarly the institutional theory of law in the hands of Hauriou and Renard in France is also a sociological theory, which fully enters into an examination of the variety of institutions in society along with the state. Institutions are described as "communions of men in ideas." For the realisation of ideas behind the institution, authorities, sanctions and definite procedures are created, and thus there are other institutions in public law besides the state. Here, again, the juridical analysis of the nature of the state, the nation and public law exhibits a thorough grasp of the institutional "whole situation." In politics the pluralistic theories

of the state developed by Laski, Follett and others similarly represent a significant new approach, which gives adequate consideration to group organisation and how it operates in the totality of group relations and interests, the state representing only one such group, and demanding one loyalty out of many loyalties in the political "whole situation." In the field of sociology the appreciation of the "whole situation" has been many-sided and more significant. Only a few instances may be adduced here. The region concept in sociology has been helpful as worked out by Le Play, Geddes, Victor Brandford and the present author in the interpretation of the environment, occupational function and social institution as interlaced wholes. In the processes by which the balance of the region is maintained or destroyed are implicated not merely economic and technological, but also social and cultural characterisations. In regional sociology, the region affords specific media and data for the study of ecologic origins and processes or cultural conditioning as opposed to biological, and in the totality of the region's forces we have a clue to seeing man's life in his milieu steadily and seeing it whole. The regional method is now being developed into the ecological movement in sociology, which has derived from biology the concepts of ecological areas, distribution, mobility, segregation, dominance, succession, migration and balance, and the technique of sociological analysis corresponds to that of the field ecologist.[1] Case commenting that preoccupation with spatially flavoured notions might be expected to lead the sociologist into an abstracting, analysing dissection of the physical forms of community existence, in a kind of sociological behaviourism, nevertheless finds that "the whole tendency from Brunhes through Mackenzie to Mukerjee has been quite the reverse of atomistic. On the contrary, it has aimed at an intensive study of concrete wholes of

[1] Mukerjee: *Man and His Habitation,* Introduction.

human life with much of that attention to the "total situation" which he calls Gestalt Sociology.[1] As a matter of fact, the notion of balance starting from the ecologic and economic levels to the harmony of institutions and social norms and values is exceedingly helpful for the analysis of social causation, meanings and purposes in the cultural "total situation." From the sociological standpoint, the fundamental notion is the balance of social forms and institutions in the setting of the environment, which includes both inanimate and animate nature. Any change in an external factor of the environment induces a series of changes in man's institutions. There is, again, a second series of inter-relations between the human individuals and the institutions of which they form parts. For man, the legacy of institutions and traditions is simply part of his life and activity, and is comprised in the unity of the social-cultural process. A change in the institutions alters the character of the individual, and vice versa. Social life, therefore, represents a triadic balance of the individual, the institutions and the region.[2] In the sociological system of Max Weber we also see the significance of a method that seeks to comprehend the entire social situation, especially in its subjective side. Weber clearly states that "the social sciences do not consider exclusively the 'inner side' of social phenomena but also deal with the constellation of external factors, in so far as they condition mental processes or are the results thereof." And in his *Religionssoziologie* he has made the significant statement that it should be the task of the sociologist "to discover as far as possible all the influences and causal connections which are explainable in terms of reactions to existing situations."[3] Weber's methods of analysis are best illustrated in his use of a vast wealth of factual material

[1] Clarence M. Case: Toward Gestalt Sociology, *Sociology and Social Research*, September-October, 1930.

[2] The Processes of Regional Balance, *The Sociological Review*, The Regional Balance of Man, *American Journal of Sociology*, November 1930.

[3] Abel: *Systematic Sociology in Germany*, p. 137.

to prove a definite correlation between forms of economic organisation and prevailing modes of conduct and religious and ethical belief. Weber regards the social or cultural reality as concrete and unique which therefore, can never be deduced from laws or generalisations. "Each constellation of factors of an individual phenomenon is unique, and unique are the constellations of factors which are the causes of this phenomenon." The employment of a variety of data from different levels and angles, the analysis of their causal relations, the formulation of regularities of cultural behaviour and ideal constructs of types derived from experience and observation to interpret a concrete culture situation all represent Weber's profound insight into the "total situation" in social phenomena. Another illustration of the method of objectively interpreting social life and phenomena as a total situation, is furnished by the voluminous and growing case survey literature in America in which the study of life-histories of individuals and of gangs, sects and communities is interwoven with the analysis of cultural traditions. An organic view of human society and an endeavour to grasp the complete configuration of social behaviour are abundantly evident in the methods of work of Ogburn, Odum, Park, Burgess, Lindeman and others. Two brilliant studies of this type are "Middletown" by Lynd and Lynd and "The Changing Community" by Carle C. Zimmerman.

The "Whole" View of Economic life and Relationships in Marxian and Institutional Economics

Classical economics followed the procedure of an abstracting, analysing dissection, and by assuming that economic activities are dictated by rationality and self-interest, that social factors are causes of economic friction and impede the natural automatic balancing of efforts and satisfactions and that the state existed only to guarantee a system of natural liberty for individuals presented what Vaihinger calls standard

examples of neglective fictions which all the sciences have employed provisionally in the discovery of laws. Yet in spite of the fact that such fictions with the accompanying ideologies of individualism, rationalism and utilitarianism have been now unfortunately woven into the very texture of economic science, the historical economic developments, since the mid-Victorian formulation of an authoritative science have developed methods which do justice to the economic "whole situation." The best illustration is of course afforded by Marx's theory of economic determinism, an ideal construct, similar to that employed by Weber, which has combined a mass of discrete, technological, economic and cultural phenomenon into a uniform structure for interpreting the total situation. Like all ideal constructs, Marx's dialectical movement is to be compared with the actual conditions and course of social behaviour in order to determine the significance of the factors and processes postulated by it. Similarly institutional theories of economics after isolating and abstracting single factors of the explanation of business cycles and unemployment such as the psychology of forecasting among business leaders or the monetary policy of the government and the banks now show a clear appreciation of the extrinsic relations of geographical, technical, organisational, monetary and psychological factors and processes which have their cumulative and inter-active effects in the developing "whole situation" cycle. The more realistically the present instability of prices, output and unemployment is approached, the greater is the attention focussed in the total situation. As a matter of fact, there is a pronounced tendency now of the whole situation, outlook and technique developed by dynamic and institutional economics to invade the field of static economics with its "fictions," which now show a fundamental inadequacy for interpreting phenomena, and what is lost in mathematical exactness tends to be more than compensated in economic insight. Old conceptual constructions such as

the economic man, value, supply, demand and utility which formed the basic premises for the systems of economic theories of the past are now giving way to the observation and quantitative survey of economic processes and activities of groups. What has now become significant in spite of the uncritical disposition to copy the quantitative methods of the natural sciences, is the recognition that such things as value, demand, utility and supply are a function of a large number of independently variable factors of human nature, which in their turn are determined by a number of independent variable factors of the social and institutional environment. Hardly does utility or supply change without affecting a great many group factors and normative rules, while the pricing process is different in different groups and situations. Mere numbers may modify pricing instead of giving it a uniformity. The nature of the group such as the family, the trade union or the rural community will, again, determine whether the degree or measurement of satisfaction for the same individuals will be different or similar. Lastly, there cannot be any comparison between social uniformities of sequences where difference of level or quality emerges as significant, as in all processes of valuation.

The influence of these considerations on economic thought is primarily both to introduce a certain amount of fluidity into economic concepts, and limit the scope of application of the process of summation or integration. Economic values are as protean and shifting as human nature from which these arise. These are, however, stabilised and organised by groups and institutions. It is through group formation and institutional co-ordination that values not only cease to be transitory, but they also strengthen one another and are harmonised and integrated. Economics has so far focussed its attention to the individual's efforts and relationships abstracted from the web of relationships in society. Such a neglective procedure has led to a natural stress of the parti-

cular means and ends of individuals and of the *ad hoc* contractual relationship which results from the give-and-take of "atomic" individuals. In an extensive and "whole" view of social life and relationships, which sociology furnishes, economic behaviour gives rise to relationships of the individual to other individuals, and becomes in turn dependent on these relationships. Society brings about an order from a medley of random variation of relationships by building up a coherent pattern of norms of conduct and relationship, and organising institutional, legal and cultural patterns and a common system of ultimate values. Man's economic life is *logically* conceivable only under the control of social, institutional and legal norms which regulate the relations of men to men in a milieu of social cooperation. Without normative rules and legal relations which are derived from the common system of ultimate values, economic phenomena cannot be understood. For society is no mere mechanism for the realisation of specific ends and purposes of individuals but a communion of their meanings and ends, which goes beyond a rational calculation of advantages associated with contractual relationships. The analysis of social relationships in mere terms of specific individual efforts and satisfactions governed by contract and artificial rules misses important elements of social behaviour in which there is a sharing of meanings and virtues along with interests and rewards, and the development of non-contractual and enduring (at least relatively) relationships, which are the focus and expression of common value-attitudes. Such common values enter into the specific interests and advantages of individuals, and give them their true significance for the personality process. Economic interests and advantages always mingle with common value-attitudes of the community, giving rise to patterns of values, norms of relationships and schemes of legal relations and institutions.

The Concept of Personality as the Key to Evaluation

Classical, marginal and socialistic economics alike follows a harmful, neglective procedure when it regards the economic behaviour of individuals as guided merely by rational consideration of self-interest or by organised class antagonism. Certain schools of social psychology which confine the treatment of conduct to the level of the biological and psychological drives of individuals and neglect social and institutional "conditioning" also present an inadequate view. There can be no social or economic order without normative rules, bearing the stamp of origin from the common ultimate value-attitudes, which define and regulate economic relations and lay down limits on the use of other individuals as means, on the acquisition and use of wealth and economic power in general. Such norms logically pre-condition and make the economic order possible. The patterns of common value-attitudes, norms of social relationship, institutions and legal relations, indeed, define all economic values and satisfactions and regulate through penalties, sanctions and awards the standards of all socially acceptable economic actions. It is in this manner that the norms of economy and efficiency are subordinated to those of social survival, harmony and justice. Without this subjection which is brought about by law, religion, ethos, tradition and public opinion social order and progress are impossible. Such subjection implies also an ethical choice of means to a common system of ultimate values by the individual, which is the key to the personality process. The growth of personality, indeed, implies an ever-expanding process of the compounding and interpenetration of economic and ultimate values through the subtle, intricate and pervasive influence of normative rules, institutions and legal relations. How can the complex, composite and flexible values be measured by a calculus of utilities and disutilities as given by the Austrian school, bent upon making the cost and utility analysis of value scientific? The modern

conceptions of values and of personality are in revolt against the mechanical view of life. Neither values nor the psycho-social mechanisms of group life and relationships yield themselves to a successful application of the existing methods of economic analysis. Whether in the field of the relations between economic efficiency and social survival and social justice, or in a more symmetrical understanding of value and demand, and of the psycho-social mechanisms and effects of institutions, habits of thought and norms of social relationship and virtues, or, again, in an analysis of the disintegration of human values and their reconciliation in an integrated system of ultimate values, we need new economic concepts or to import some from sociology, which has already evolved and tested many categories in such fields.

The Concept of a Tripartite Equilibrium, Organic, Economic and Social

In biological economics, in economic psychology, in the science of values, the only possible theory is one of factors of complex action and interaction of non-uniform forces, working themselves out in different levels and grades into specific patterns, whether of the arts of industry and consumption or of systems of economic relations or of schemes of culture. The orientation of natural and human resources into a distinctive economic system, the pattern of social and economic relationships and institutions and the scheme of civilisation, virtues and value-attitudes, each has meaning only with reference to the totality of the culture scheme of which the less articulate pattern is a part and a stage. The pattern of culture evolves on the basis of man's ecologic, technological and institutional adjustments in ascending stages to serve human needs and values, which do not always yield to quantitative expression and measurement. Man's immense tools, techniques and economic organisation are parts and stages of a frame-work of immenser common

ideas and value-attitudes from which his family, religion, legal and ethical relations are more directly derived. It is these latter which are the true monitor of the social equilibrium that works through organic and economic equilibrium, securing social survival and economic efficiency, to the inherently coordinated unity of relations in terms of order and progress in a concrete 'whole' social situation. Human experience rises from level to level and in the common ultimate values of social solidarity and justice, which represent the complete or perfect interpretation of man's adaptation to his milieu, we find included and reconciled the demands of organic well-being, economic efficiency and ethical fulfilment. The patterns of social situations and relationships thus represent a hierarchy of organisations, wholes, values and virtues; the relations between them are of different levels and grades. All this excludes a purely mathematical or mechanical treatment of the concepts, which had been the legacy of economics from the Classical and marginal economists. An adequate method in economics must recognise value and personality as a functional whole, a vital and reactive part of the new cultural situations, new economic environments. The individual's situational orientations change not merely his economic relations and activities but even his methods of analysis and interpretations. Thus the cultural situation itself demands a departure from the theoretical orientation of the economic man or an abstracted phase of his conduct set by the rehabilitated Utilitarian philosophy. The more is economics permeated by the notions of inter-articulation of factors and hierarchy of patterns ascending to larger and larger wholes, the more will it be in harmony with the most enlightened science and humanism of the time. With its feet firmly planted on the earth, habitat and home, it will envisage new linkages of man with the rest of Nature, establishing finer, more complex and more far-reaching alliance. As man wisely husbands nature's resources, curbs his subtle and whole-

sale, quick and far-reaching exploitative activities and imports new patterns of use and values, the thought of the morrow, his civilisation will become less distraught with anxiety about its failing materials and resources. As his tools,techniques and skills are reset for directing his resources towards social order and security and fulfilment of emotional and personality patterns which they have now replaced, civilisation will gain in poise and depth. As his family, religion, education, legal and political system collectively make secure the ultimate value patterns, and direct and control the social effects of the vast industrial and technological machinery, it will bring peace and sanity to class-ridden society and shared abundant and secured life through the reconciliation of work with service, of possession with distribution, and of enjoyment with creation. Man's economic goal, under the inevitable conditions of scarce means and possibilities, is yet to be found in that sharing of older and more familiar common values, which is the *sine qua non* not only of vital and economic efficiency but also of social harmony and the ethical development of individual personality. Is not this also the goal of sociology and ethics whose task it is not only to clarify man's social aims and social needs but also to evaluate the means to attain these ?

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INDEX

Abel, 349.
Adams, 255.
Agrarian: capitalism, and social revolution in Europe, 246-248; communalism, in the East, 248-251.
Alexander, 102.
Allen, 205.
Allport, 335.
Ammon, Alfred, 163.
Aristotle, 173.
Ascoli, Max, 270, 292.
Ayres, 33, 78, 329.

Bagehot, Walter, 1, 18.
Barnes, 98.
Bashford, 242.
Bauch, Bruno, 272.
Bentham, 107, 214, 265, 293.
Bergson, 332.
Böhm-Bawerk, 148.
Bonar, 328.
Bougle, 24, 26, 198, 263, 267, 288, 305.
Bourgeoisie, economics, 105.
Bousquet, 76.
Bovensiepen, S, 280.
Branford, 348.
Brecht, Arnold, 282.
Bridgman, 123.
Briefs, 248.
Brinkmann, 22, 24, 25.
Brock, 329.
Brunhes, 348.
Burgess, 350.

Calvin, 329.
Cannan, Edwin, 104, 105, 106.
Capitalism: ideal construct of, 213; and communalism, elements of contrast between, 220-225; its changing institutional setting, 225-227.
Cardozo, 96, 98, 226, 283.
Carey, 133.
Case, Clarence, 335, 343, 348, 349.
Charmont, 292.
China, division of land in, 217.
Christian Civilization, ethos of, 231.
Clark, J. B., 117, 118.
Clark, J. M., 116, 143, 144, 147.
Clarke, M.E., 276, 303.
Class: and group, individual's relation to, 170-171; the genesis of the, 171-175; its difference from other social groups, 172-173; leadership and propaganda, factors in the transformation of, 173; struggle not inherent in society 174; consciousness, the resolution of, 176-179; *versus* community, 184-186; *Gesellschaft* and *Gemeinschaft*, 184; exaggerated emphasis of the rôle of intellect in its theory, 186-188; mutilation of personality in this system, 188-190; struggle, notion of the universal validity of, 238-239; economic, its transformation into cultural groups, 253-254; *versus* social planning, 254-258.
Classical: economics, its ethical presuppositions, 60-63; English, its assimilation with the philosophy of history, 108-110; its social and psychological postulates, 126.
Clay, 29.
Cohen, 343.
Cole, 29.
Commons, 30, 31, 96, 245.
Communal: societies of East Asia, 217; bonds weakened in Japan, 218; habits and traditions, potent forces of economic renewal in China and India, 218;
Communalism: agricultural, encouraging group formations,

203; as ideal construct of economic organization in the East, 214; village, 214; constructive, 216; and capitalism contrasted, 220-225.
Community: principle of Tonnies, 24; in the East, directing expenditure and inducing saving, 207; and association, the dichotomy of, 298-300.
Comte, 25, 30, 320, 330, 331, 341, 344.
Condorcet, 109, 111, 319, 320, 321.
Conquest, giving origin to capitalism and monopolisation of the soil, 234-245.
Consumption: evolutionary outlook in, 155-157; the rôle of culture in rationalising and elevating, 159-161.
Cooley, 25, 301.
Cooperative, movement in India, 218.
Corn laws, 105, 106, 108, 133.
Corvee, 246.
Croce, 264.
Cultural: groups, transformation of economic classes into, 253-254.
Culture: state, the conception of, 14; the relation of consumption to, 160; patterns, representing different ethical standards conditioning economic activity in Europe, India and China, 225; and technology, 328-330; interrelations between economic history and, 330-332.
Custom: its rôle in exchange relations, 127-131; as exterior to man according to classical theory, 127; as the basic force guiding the social organisation of the primitives, 128.
Cycles: trade, the phenomena of, 145-146; meteorological, stimulating pulses of boom and depression, 146; causes of trade, 147; upswing of, 148; sociological "total situation" in the study of credit and trade, 149.
Darwin, 117, 142, 321.
Das Kapital, first complete introduction to the theory of institutions, 229.
Data, norms of consistent action in other social relations intermingle with economic, 67-71.
Dellepiane, 336.
Descartes, 328.
Dewey, 22, 23, 38, 311, 345.
Dichotomy, of community and association, of status and contract, 298-300.
Dictatorships, restricting basic freedoms, 254-256.
Dilthey, 18.
Distance: levelling up of economic and political power and social, 80-82.
Distribution: Classical theory of, 133; entirely an incidence of the prevalent class structure, 204-206; theory of, 229; a scheme of, 231.
Dodd, 335.
Durbin, E. F. M. 124.
Durkheim, 18, 26.

Ecology, the biotic community, 342.
Economic, Behaviour: certain desires and instincts, the determining factors of, 151-152;
History: a phase of, in Ricardo and Malthus, 105-106; all history not, 328-330; to recognise culture patterns, 330; Interests: and non-economic, the blending of, 180-182;
System: a world of instrumental ends, 8-10; works within a universe of meanings and values, 197-198; the "spectrum" of, 201-202;
Theory: to analyse causative factors, 94; dynamic, introduction of sociology into its *corpus*, 149-150; based on the ground plan of technological, institutional and psychological data, 149-150; reconciling itself with sociology, 150; its relation to social ends and policies, 228.

Economics: English and American, 1; abstractive methods of, 2; brought a crisis in Western culture, 2; based itself on the unity of individual and society, 5; complementary to politics and ethics and *vice versa*, 6; need of critical examination of the presuppositions of, 6-8; as seeking a rational order to subserve the ends of the state, 13; as a subdivision of sociology, 18; Anglo-Saxon, based on the postulates of reason etc., 24; concerned with organic total service, 26; value, a minor technical aspect of, 33; ecological, 43-51; its scope and laws, 43-51; means and ends in, 58-60; transposibility of data and ends in, 58-60; comparative, 64; concerned with individuals as members of the social organism, 113; static and dynamic, 140; Marxian interpretation contributed to the break from static, 141; Marxian, 189; and ethics, equilibrium, price, 229; as a functional, and not a "dismal science," 230; relativism in a comparative theory of institutions, 231-232; regional and historical, 231; and ethics, 266-267; materialism of, 267; Spencerian optimism, an essential feature of, 324-326.
Economy, Political, study of economic system, 15.
Eddington, 345.
Encyclopaedists, 319.
Ends, social and not individual, 124.
Engels, 327.
Environment, economic, its three orders, types and levels, 39-42.
Equilibrium, analytical or normative, 5, 9; price and cost, 6; economic, cultural, individualistic or collective and institutional, 9; economic, its three levels, 42-43; laws, norms and ideals in, 52-54; normal, 114; its mechanical and evolutionary notions contrasted, 118-121; restatement of the theory of, 138-141; an ideal construct, 140; tripartite, organic, economic and social, 355-357.
Ethical, transformation, 211.
Ethics, relativism in, 231; economics and, 266-267.
Ethos, psychic constitution as producing, 20; Hindu religion and Christian civilization's, 231.
Evaluation, a social process, 273-274.
Evolution: human, cultural and social, 35; social, outside the ambit of politics, 252-253.
Evolutionary outlook, of Marshall and Veblen contrasted, 117-118.

Fabian socialists, 234.
Falk, Werner, 190.
Faris, 32.
Fascism, its organismic view of society, 99-100.
Fetter, 29, 32, 103, 104.
Fichte, 29, 344.
Firth, 129, 347.
Follet, 348.
Freud, 154.
Freyer, 300.
Functionalism, village organization as a form of, 216.
Fundus, 247.

Geddes, Patrick, his contribution to the ecological movement in sociology, 322, 348.
Geisteswissenschaften, 18, 20, 21, 22.
Gemeinschaft, 291, 299, 300, 301, 302.
Geography, an immediate base of economics, 324.
Gessellschaft, 299, 300, 302.
Gestalt, 32, 33, 163, 194, 342; psychology, an analysis of constellation of stimuli, 343; sociology and the total situation, 349.
Giddings, 24, 25.
Gini, Corrado, 100.
Ginsberg, 132.
Glumplowicz, L. 243.
God: in the family as the source of affective life, 306; as equiva-

lent to the group spirit, 307; as revealed in the social norm and ideal, 308.
Godwin, 265, 320, 321.
Gradation: social, as organ of social control, 192.
Great Britain, cooperative production and guild socialism in, 216.
Great Community, 313, 314.
Great Depression, 12.
Great Society, 8, 81; not a community, 311.
Group: and class, individual's relation to, 170-171; socio-economic interests in the formation and stabilisation of, 174; functional and regional in India, 178; variety of, as taking up control of social and economic functions, 203; organization, as a form of regionalism, 218; spirit, to protect rural population against exploitation, 220; organization in the West and the East, 243; and institutions, their intrinsic and instrumental values, 284-287.
Guilds: in Medieval Europe and in India, 175-176; industrial, 216; mercantile, their phenomenal success in China, 218; Caste, their collective capital a social asset, 219; as offensive and defensive alliances, 219; in India and China, 241-242; in the East and the West, 251.

Halevy, 108, 109.
Hartley, 111, 320, 321.
Hartmann, Nicolai, 38, 264, 274.
Hauriou, 347.
Hegel, 21, 25, 187, 235, 236, 237, 239, 325, 326, 327, 344.
Heimann, Eduard, 293.
Helvetius, 321.
Henry II, 245.
Hertzler, 335.
Hindu religion, its ethos, 231.
Hobson, 29, 31, 32, 97, 118.
Hocking, 181.
Hook, Sidney, 181, 187.
Hume, 102.

Ideal Types: 18, 19, 213, concrete investigations of complex social data and, 220; of polity, monistic and pluralistic contrasted, 239-243.
Idealism: contrast between Marx's realism and Hegel's, 237.
Imperatives: interrelations between economic, cultural and categorical, 316-318.
Income: social, the theory of cooperative productivity and, 166-169.
Individual: class conscious, unfreethinking, a caricature, 179-180; institutions and the, 209-212.
Individualism: reaction of economics against, 11-14; and class consciousness, 253-254.
Industrial: fluctuations, its psychological and sociological background, 144-149; Revolution, in Europe, 209.
Industrialism and militarism in Japan, 218.
Ingram, 112.
Inheritance: the rôle of social, 322-323;
Inquiry: social, involves judgments of evolution, 22; to promote cross-fertilisation of ideas and flexibility of hypotheses, 23.
Instincts: Mitchell and McDougall's list of, 31; whether data or hypothesis, 32; Malthus' over-estimation of, 111; rich endowment of artistic, in Japan, 218; their transformation into values and virtues, 270.
Institutions: theory of, 4-6; to be reached by deductive and inductive studies in the social sciences, 5; theory of, bridging the gulf between economic theory and policy, 10; theory of, distinguishes the *gestalt* of an economy, 192-194; analyses functional relations between economic and other social norms and trends, 194-195;

economic, present inadequacy of the 19th century pattern of, 195-196; theory of, furnishes the logic of social evaluation, 199-201; economic history a jumble of data without, a theory of, 200; and the individual, 209-212; the rôle of, in the prevention of conflict between different social aims, 225-227; true significance of, in preventing conflict between value planes, 226-227; changing content of, 227-229; do not exhaust social behaviour, 227; need for a dynamic theory of, 228; theory of, will be regional and anthropological, 228; biased theory of, 229; rôle of, in the evolution of different economic systems, 230; and groups, their intrinsic and instrumental values, 284-287; the changing values of, 287-289; as communions of men in ideas, 347.
Institutional: economics, its rise in Germany and the U.S.A., 29; the absence of systematic economic theories in, 30; its evaluative character, 31; founded on the functional view of society and culture, 34-37; its final and inclusive norms, 84-86; and sociology, 37, 86-88, alternative orders, plans, and hypotheses in, 94-95; and social factors, their emphasis in Malthus, 107-108; Marx and Veblen, as precursors of, 141-144.
Institutionalism: Classical, Marxian, Fascist, and Soviet economics, instances of, 4; the history of, 29-34; in Germany and America, 30-31; causes of its present barrenness, 31; various types of, as governing economic motives, activities and relations, 201-209; its relations to economic theory, 204-212.
Interest: the theory of, in the East and the West, 207; economic, the relation between virtue and, 269-270.
Jastram, 77.
Jennings, 346.
Jevons, 77.
Johnson, Alvin, 142.
Jones, 133.
Jung, 154.

Kant, 344.
Kantorowicz, 282.
Kelsen, 99.
Keynes, 57, 119, 147, 148.
Kidd, 18.
Knapp, George Fredrich, 246.
Knight, 68, 69.
Kohler, 289, 347.
Kornilov, 179.
Korsch, Karl, 327.
Kroeber, 347.
Kropotkin, 322.
Kuczynski, 73.
Kurwillen, 299.
Kuznets, 140.

Laissez-faire: 3, 4, 16, 62, 74, 87, 103, 119, 136, 199, 228; and socialism, theoretical antithesis between, 233-235; Darwinianism strengthened, 321; decline of, by the middle of the 19th century, 322, 325.
Landheer, 20, 21, 29.
Laski, 348.
Law: as economic norm and datum, 87-89; and values, economic, social and aesthetic, 97-98; the moral, the end of, 281; revival of natural, 289-290; economics and the institutional theory of, 192-193; the conditioning form of the economic order, 280; its relations to institutions as ordering values and rights, 281; its relations to economic freedoms and rights, 273; its contribution towards resurrection of values in economics, 290-295.
Le Play, 348.
League of Nations, 16.
Lerner, Max, 30, 293.
Lindeman, 350.
Lowe, 347.
Luther, 329.

Lynd, 350.

Machiavelli, 123.
MacIver, 99, 299.
Mackenzie, 348.
Maine, 24, 25, 244.
Malinowski, 36, 128, 129, 347.
Malthus, 105, 106, 107, 108, 109, 110, 111, 112, 265, 266, 320, 321.
Man : and culture, part and parcel of each other, 36; his aggression against his habitat, 47;-land ratio, 93; his rational-contractual relations, 56; the evolutionary laws of wants and satisfactions of, 152-159; his social utility, value, consumption and income, 164-168; *versus* the state, 234; modifies his own nature by starting and regulating economic forces, 238.
Mannheim, 37, 252.
Manor, its origins, 247.
Marcel, Etienne, 251.
Marshall, Alfred, 31; his realism contributing flexibility to the laws of value and distribution, 113-117; his doctrine of maximum satisfaction, 113, 114, 115, 116, 117, 118, 120, 163, 216.
Marx, 25, 113, 118, 141, 142, 168, 170, 171, 172, 173, 179, 180, 181, 186, 187, 189, 190, 211, 229, 235, 236, 237, 238, 239, 247, 252, 253, 256, 257, 325, 326, 327, 328, 329, 330, 331, 332, 334, 344, 351.
Marxian: sociology, 181, 211; theory of the state and economic interpretation, criticism of, 235-239; pessimism, and subordination of ethical issue to economic necessity, 326-328.
Marxism : its relation to institutional economics, 35; contribution of, 228; relation between economic and political institutions in, 235-238.
McDougall, 31.
Mead, 347.
Melanesians, head-hunting expeditions and recreations among the, 128.
Melville, 77.
Menger, 126.
Mental patterns : interests and values, the need of balancing, through institutions, 323-324.
Merriam, 81, 235.
Methodology, the problem of, 5, 6; in Germany based on "understanding," 18-22; as dialectic, 21; as interpreting the whole culture situation in social sciences, 347-350.
Middle class, strong and rich in cities of the East, 218.
"Middle principles", 3, 192.
Mill, James, 109, 111, 136, 182, 320.
Mill, J. S. 1, 2, 18, 109, 112, 113, 116, 117, 122, 132, 136, 181, 192, 194, 234, 265, 266, 320.
Mitchell, 31, 133, 136.
Money, as a means of measuring human motive, 114.
Mukerjee, 155, 236, 311, 348.
Mukerjee and Sen-Gupta, 180.
Munda-Dravidian, 177.
Murchison, 179.

Nicefero, 335.
Norms : interaction of economic, social and political, 3-4; transposibility of, and data, 71-73; in economics, survival, efficiency and progress, 73-75; social, law as the synthesis of, 96-98; the interpenetration of familial and contractual, 311-316.
Nys, 251.

Odum, 350.
Ogburn, 350.
Oppenheimer, Franz, 15, 220, 244, 246, 300.
Optima; its levels, criteria and indices, 82-84.
Organismic: relation between individual, society and environment, 5; mechanistic views of life strengthen non-, outlooks, 8,

Paley, 107.
Panchayat : and guild, 219; local, occupational, functional; village council and caste; controlling or appellate jurisdiction of, 219; government, 241; India's organ of rural self-government, 249.
Pareto, 76, 123, 197.
Park, 350.
Parker, 154.
Parsons, 200, 299, 301.
Patronage : of, temple, monastery and court, 217.
Patten, 29.
Pearl, 73.
Peck, 208.
P.E.P., 16.
Personalism : ethical, not sociological individualism, 8.
Personality : the key to evaluation, 354-355.
Pierre, Abbe St., 319.
Pigou, 31.
Plan : a hypothesis directive of practical operations, 22-23.
Planned : economy, giving rise to new institutions and relations, 203.
Planning : governmental and economic, 12; social, the problem of, 210-211; a problem of state action, 235; a programme of, in the East, 257; for correcting social injustice and deterioration, 338-341.
Plato, 317.
Plotnik, 20.
Polity : Indian, 216.
Pollock, Frederick, 293.
Population : institutional factors as regulating, 107; cause of increase, not merely biological but psychological as well, 110; outlook changed in the study of, 138.
Post, 347.
Pound, Rosce, 97, 98, 281, 290, 347.
Presuppositions : economic, the gradual change of, 14-18; social, of the theory of distribution, 131-134; of the theory of valuation, 132; of the economic man and the class, 170-175; of the theory of distribution, 204-206.
Preference, its criteria, 274-275.
Price : economics, social norms given data for, 88-93; distinction between institutional economics and, 90; movements, data and norms governing, 93-94; economics, limited conception of, 104-105; its scope, 122-123; restatement of the theory of, 136-138; system, incompatible with social justice, 136.
Priestley, 320.
Production : and saving, the incentive of, in liberal society, 206-209.
Productivity : the theory of cooperative, and social income, 166-169; social psychology furnishes an organic view of, 167; cooperative, 167.
Progress : functional conception of culture and, 36-38; notions and ideas of, 108-110; sociological laws of, in Ricardo and Malthus, 110-113; social, 319, 323; limitations to, 319; the older conception of Reason as key to 319-320; Malthus, stress on instincts and habits, the basis of modern sociological theory of, 320-321; Malthus' contribution to the modern theory of, 321-322; the rôle of social heritage in, 323; according to Spencer, 325, 326, 336; economics as key to, 328; Comte's law of, 331; a task of social planning, evaluation, and striving, 332-334; and meliorism, 333; the rôle of heredity and social heritage in, 333; three modern root-ideas of, 334; indices of, in different levels, 334-338; criteria of, 334-335; and virtues, 337-338; consists of harmonious advance along economic, ecological and sociological levels, 340-341.
Property, a social trust, 231.

Purnam, 338.

Quasi-feudal, post-War state a, organisation, 11.

Radbruch, 270, 272, 281.
Ranke, 337.
Ranulf, Svend, 301.
Rationalism: dialectic, progress of freedom in, 190-191.
Reason, as key to progress, 319-320.
Regionalism, group organization as a form of, 218.
Relations, the rôle of familial and contractual types of, 300-304.
Relationships: nexus between economic and other types of social, 65-67; truth, beauty and goodness, their experience in the immutable familial, 306-308; religion regulating social behaviour through symbols derived from familial, 308-309; a new age of human, 309-311.
Relativism, 231.
Religion: regulating social behaviour through symbols derived from familial relationships, 308-309.
Renard, 192, 347.
Rent: Ricardo's political economy based on the evolutionary law of, 105; evolutionary law of, 111-112; in England, U.S.A., India and China, 205-206.
Ricardo, 101, 105, 106, 107, 109, 110, 112, 113, 114, 116, 122, 126, 133, 139, 205, 214, 321, 344.
Rights: economic, the theory of, 270-273; natural, revived concept of, 289-291; social and economic, the recognition of, 290; of individuals and of groups and associations, 291; a restatement of, now necessary, 295.
Rivers, 36, 154.
Robbins, 2, 59, 67, 68, 76, 77, 90, 150, 174, 194, 200.
Robertson, 147, 148.
Robson, 98.
Rococo, 99.
Röpke, Wilhelm, 148.
Ross, 155, 244.
Rothackser, 21.
Russell, Bertrand, 238.

Salomon, Albert, 291.
Saltus, 247.
Samuel, Viscount, 333.
Satisfactions, goal of shared and integrated, 78-80.
Satyam, 338.
Schaffle, 118.
Schaub, 272, 280.
Scheler, Max, 24, 26, 38, 232, 274, 275, 276, 303, 304, 305, 344.
Schmid, J. J. Von, 187.
Schmoller, 15, 253.
Service, 27.
Sex, its economic significance, 261.
Sidwick, 234.
Simiand, 266.
Simmel, 198.
Simon, Saint, 320.
Sismondi, 106.
Sivam, 338.
Smith, Adam, 68, 101, 102, 103, 104, 105, 109, 265, 320, 344.
Social: sciences, Dewey's influence on the logic of, 22-23; process, represents unity and integration, 34; psychology, its contributions to economic theory, 151,-169; services and legislation, 226; evolution, multilinear, 228; progress, 319; inheritance, its rôle, 322-323; psychology, 322; and basal sciences, the organismic standpoint in, 342-344; its stress on total experimental situation, 344-346.
Society: a spiritual and organic entity, 27, 28.
Sociology: significance of Mill's "Middle principles" of, 1-3; Comtian, 18; as explaining formation of "types" of motivation, 19; stress of ethical implications of economic process in, 24-26; meeting ground of social sciences, 30; its stress of

the total situation, 37, 348; of knowledge and culture, 38; synthetic, theory of institutions a division of, 227, 228, 229; regional, 348; *Gestalt*, 349; of case and community survey, 350.
Sombart, 6, 15, 18, 19, 20, 31, 130, 200, 247, 248.
Sorokin, 98, 299, 301.
Souter, 68.
Spann, 15, 16, 26, 28, 29, 32.
Spencer, Herbert, 18, 24, 25, 36, 117, 118, 234, 304, 324, 325, 326, 327, 330, 331, 334, 336, 344.
Spranger, 21.
Staley, 201, 203.
Stammler, 99, 280, 289.
State : as the personified unity of social norms, 98-100; Monistic type of the West and Pluralistic Type of the East contrasted, 240-241; an outcome of warlike subjection, 243-244; the "association of associations," 279; its ethical foundation, 280-281.
Status : decreeing a certain minimum of wages based on social judgment, 204; and contract, the dichotomy of, 298-300; its relation to the ultimate values and the development of personality, 298, 303.
Stuart, H. W. 267.
Sundaram, 338.
Sutton, 78.
Symbolism : as representing institutionalisation of ultimate ends of the community, 296-297.

Taille, 246.
Tawney, 29.
"Taxonomy," Veblen labelled orthodox economics as, 144.
Taylor, O. H., 227.
Tead, 154.
Technique, to control machine and its technology for beneficent social aims, 210.
Technology : supply and demand, need of recasting the hypotheses relating to, 134-136; the class and the system of, 174-175; need of socialisation of machine, 210.
Thomson, William, 107, 322.
Thurnwald, 129.
Timasheff, 98.
Tonnies, 24, 25, 26, 184, 299, 300, 301, 302, 311.
"Total situation," 347, 349, 350.
Totalitarian state, 14.
Trade unions, lawful, 97.
Trobriand islanders, gift exchange almost a ritual among the, 129.
Trotter, 31.
Truth, beauty and goodness : the ultimate categories of, 304-306; their experience in the immutable familial relationships, 306-308.
Turgot, 319, 320.

"Understanding," (*Verstehen*), three types of, 18-20; abstract, factual (*Sachverstehen*), psychological (*Seelverstehen*), 19
Universalism : the ethical foundation of Spann's, 26-29; its distributive justice, 27.
Urban, 98, 275.
Urges and interests, the inhibition of vital, 154-155.
Utilitarianism, 233-234.
Utility : its inter-personal comparisons, 75-78; and value, the social basis of, 123-126; marginal, psychological examination of, 162-166; an individual phenomenon, 163; theory guilty of neglective procedure, 164; theory of social consumption and, 166.

Vaihinger, 34, 213, 350.
Valuation : departure from the Benthamite system of, 265-266.
Values: social, the theory of, 161-166; economic, as emergent, 161-162; definition of economic values, 162; moral, not rooted in economic considerations, 182-184; determined by flexible social realities, 183; economic, the segregation of, 198-199; the

gradation of, 259-262; collective scale of, in the socialistic community, 262-263; conjugation and differentiation of, 263-265; ethical, aids to economic efficiency, 263-264; human, the order of, 268-269; personal and ethical, 275; the perversion of, 276-277; machine and technology underlie transposition and perversion of, 276; distinction between intrinsic and instrumental, 277-278; class, community and the state as creators of, 278-282; the conflict of, 283-284; groups and institutions, their intrinsic and instrumental, 284-287; the ultimate, in the social world, 295-297; of truth, beauty and goodness, 304-308; balancing of mental patterns, interests and, 323-324.
Veblen, 31, 116, 117, 118, 141, 142, 143, 144.
Vierkandt, Alfred, 301, 311.
Village : its evolution in India and in the West, 214-216; collectivism, industrial, communal and self-governing, 215-216; autonomous in China and India, 218; communal system in India, 249-250.
Virtues, the relation between economic interests and, 269-270.
Vito, Francesco, 148.

Wages: major problems of, 115; variations of, 204; in Europe, 204-205.
Wallace, 117.
Wants : instinctive basis of, 151-152; stabilised and graded by society, 152-154; enlightenment of, 157-159; their transformation into virtues, 161.
War : a process of disintegration, 339.
Ward, Lester, 18, 341.
Wasd, 345.
Wealth, different elements in the notion of, 56-58.
Weber, Adolf, 89, 266.
Max, 6, 18, 37, 82, 140, 213, 253, 256, 329, 349, 350, 351.
Wells, H. G. 333, 339.
"Whole situation": new conception of life, mind and society as an integral, 34-36, 347; illustrations of outlook of, 348-350; dynamic cycle, 351;
"Whole view": of economic life and relationships in Marxian and Institutional economics, 350-353.
Wieser, 163.
Wilde, 99.
Willcox, 335.
William, of Ockhan, 293.
Williams, 154.
Wirth, 25.
Wissenssociologie, 37.
Wright, H. W. 338.
Wundt, 36, 331.
Wurzel, 96.

Young, Allyn, 119.

Zimmerman, 350.

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