



## Political Economy and Social Process

Charles H. Cooley

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## POLITICAL ECONOMY AND SOCIAL PROCESS<sup>\*</sup>

I had formerly some claim to be called an economist, having taken a Doctor's degree in that subject in 1894. Having since that time devoted myself to sociology it is only recently that I have endeavored to recover my economic foothold by reading those current books that seem to have most acceptance. The following paper is in the way of general comment on this reading.

The science and philosophy of the present day strives to see everything as part of a process, as growing out of the past under the operation of ascertainable laws, and giving rise, in a similar way, to the future. What should this mean as applied to economics? What should we expect of a doctrine of economic process? Such a doctrine should, of course, embrace something corresponding to the theory of production, exchange, valuation, competition, and the like which we now study in the textbooks; but it should do much more than this: it should show these immediate processes as consistent and intelligible parts of economic process at large; it should enable us to understand their human significance and to act wisely with reference to them. Practical guidance is what we have a right to ask of every social science, and that we may have this, special phenomena must be seen in the light of their larger relations. An adequate doctrine must, then, take account in the largest possible way of the economic movement with a view to rational social action for economic welfare. Where economics falls short of this it fails of its essential function; and if it does fall short, if the function cannot be fulfilled immediately, it should not for a moment be abandoned as an idea; we should keep it in view and be content with no substitute.

<sup>\*</sup> This paper was read before a small group of students and instructors in 1910. Several of my auditors have become influential teachers and writers and their partiality, enhanced by the haze of retrospect, has suggested that it be printed. It never had any pretension to be a competent criticism of political economy, and there is much which I should say differently if writing now. But I cannot say that I find it essentially untrue to my view of the present state of things.

What can we say of the actual treatment of process as we find it in textbooks and current discussions? It seems to be almost wholly a short-range study of mechanism, remarkable for elaborateness within a confined area, but not at all remarkable for breadth or for any light it throws on the wider economic and social significance of the mechanism of which it treats. To suggest the impression made upon one who takes up these studies after a long abstinence from them, I may say that the economic theorist appears like a man who should observe only the second hand of a watch: he counts the seconds with care, but is hardly in a position to tell what time it is.

It may be said that we have also a historical school of economics, which makes a special point of the study of the larger process. I cannot discuss this competently, but will merely record in passing my impression that its methods are too empirical to hold out much prospect of an adequate doctrine of process. I take it that we need theory, but theory that without losing any of the substantial results of current economics shall so broaden them as to meet in some degree the requirements already suggested. Now how far a theory of political economy is possible that should include an adequate doctrine of process no man can say; no worthy adventure is certain of success; but I see no reason to suppose that the difficulties of this one are insuperable.

By way of explaining my sense of the inadequacy of current discussions of process, let me make some observations upon them from certain central points of view, beginning with demand. Am I not right in saying that economic theorists practically start with demand as a datum, and that if they go back of this at all it is in such a desultory and half-hearted way that serious results are not to be expected? Demand is represented as what the people want, and if there is anything wrong with what the people want we are to ascribe it to the corruption of human nature. It is quite proper to take demand as a datum for the purpose of an intensive study of market processes; but in practice this method too commonly amounts to assuming demand as justified, and as justifying all economic conditions that effectively contribute to supply it.

What is demand? It is simply an expression of economic power and will as determined by all the existing conditions. It is as much the effect as the cause of the actual state of the economic system. Like all our inheritance it comes down from the past in a turbid stream, bearing with it those struggles and compromises that make up human history. All the evils of the economic system, except those which are added in the market process, are already implicit in demand, and of course are transmitted to production and distribution. To accept this stream as pure is as if a city should draw its drinking water from a polluted river and expect to avoid typhoid by using clean pipes. The pipes—that is, the process connecting demand and supply—are a matter of great solicitude to the economist, the source comparatively little.

As to demand being an expression of existing conditions, note, for instance, that it is largely a class phenomenon. From income statistics collected in England and Germany for purposes of taxation it appears that about one-tenth of the population receive half of the income.<sup>1</sup> No doubt we must allow for a larger percentage of saving among the richer classes, but I doubt whether this is not offset by the notorious understatement of large incomes. It seems to me a fair guess, not excessive when judged by ordinary observation, that one-tenth of the people in a modern commercial state consume half of the produce. If so, demand is preponderately determined by the economic power and will of about this fraction of the people—a condition to be explained only by taking a view of economic process large enough to include the many forces tending to such a concentration of power. Whether this tenth is fit to exercise such a predominance over the whole process I have not time to inquire: it is obvious that something might be said on both sides. It means much waste and misdirection of social resources, but also the fostering of important interests which a more equal distribution of power might possibly neglect.

I need hardly illustrate the statement that demand brings with it all the vices and degeneracy of the actual social system: it calls for drink, for prostitution, for child labor, for corrupt politics, as

<sup>1</sup> This figure is without doubt too small. Recent studies indicate that 20 per cent would be nearer the truth.

loudly as for better things. Are these things the outcome of the inherent corruption of human nature? In one sense, yes: in another they are the outcome of the economic process itself, and the economist, if he is to perform his function, must understand how it tends to produce them.

It seems clear that to start with demand as a datum shirks the most vital questions, economic questions, too, upon which society needs light. Indeed, there could hardly be a more vicious method than to confine attention to the process which mediates between supply and demand, leaving readers to infer, if not telling them in so many words, that economic good or ill is to be looked for wholly or chiefly in the greater or less efficiency of this process. The problem is not confronted at all, and yet the most sweeping conclusions are reached by apparently exact methods.

Perhaps the most notable example of this fallacy is to be found in the treatment of distribution by certain American economists of wide influence. They assume productivity as judged on the market as the righteous or approximately righteous basis of distribution, and in so doing of course accept demand, with all its implications, as the standard of economic justice.<sup>1</sup> With their further argument, very questionable in my judgment, that competition is, or tends to be, effectual in giving to each man or agent a share proportional to his productivity, I have at present nothing to do: I wish only to note the fatuity of their assumption. If demand itself is organized wrong—as in great measure it certainly is—even an efficient process may simply bind men into this wrong. I need only mention the case of a girl comparing the earnings of needlework with those of prostitution, or of children forced prematurely into monotonous and stunting labor, to show what I mean. And these are not exceptional cases but typical of a great part of the actual working of demand. It would be easy to show that a society might conceivably be quite just according to the tests of these economists, and yet vicious, decadent, and with half its population in hopeless poverty. The vices and luxury would be duly paid for according to the law of productivity, and the

<sup>1</sup> Although most economists, I believe, now reject this theory it seems to me to be implied in much current teaching.

increasing poverty would be justified by the increasing inefficiency which naturally attends it.

Of course the fallacy in all this comes from the fragmentary view of the economic process. The mind moves in a narrow circle from which the most vital facts are excluded. In the extreme case I have suggested, a really functional economics would consider in the largest way the capacities of the degenerate society and how its resources might be so used as, on the whole, to promote economic regeneration. And the partial degeneracy of our own order must be considered in the same large way.

The ordinary economic analysis affords no basis for a judgment of the social value of the present distribution of wealth; you might as well judge the social value of a man by the efficiency of his digestion. The analysis reveals forces which must be taken into account—and this is a real contribution—but they cover only a rather small part of the economic situation. It is the more or less veiled ethical pretensions of the narrow school of economic analysts that make it doubtful whether their influence is for good or otherwise.

I pass to some observations on competition, which is, if adequately conceived, the very heart of the economic process. Although this is recognized by economists to be the case, I venture to doubt whether they have attained any view of competition that really comprehends its economic function and its relation to other social processes. Political economy has, from the beginning, abstracted competition from other phases of the social movement, conceived it in a highly individualistic sense, and made of it, in this narrow sense, a kind of ideal. It has not shown it in its real nature as part of a process of progressive organization, in which competition and combination are complementary phases of social adaptation. Competition has been isolated and idealized: combination has been regarded as a disturbing condition and treated by a method, very natural where fact and theory do not agree, which I will call the method of doctrinal patches.

Political economy has scarcely the rudiments of a doctrine of economic organization in a large social sense; this seems to me

its central deficiency. In the lack of this the phenomena of organization have come upon us for the most part unexpected and understood, and the economic treatment of them, so far as there is any, is a kind of patchwork, not a consistent part of the system. The latter is still individualistic and static. A doctrine of organization, long overdue, should not be impossible of achievement. Some rather unorthodox economists, like J. A. Hobson and our own Professor H. C. Adams, have indeed made serious contributions in this direction.

To return to competition. It is, I think, an inconsistency characteristic of the narrow view economists have of social process, that free competition is regarded as a *static* condition. Now, in fact, a static condition is just what must destroy free competition and give rise to a rigid and non-competitive kind of organization. Free competition, in so far as it exists, is a phenomenon of social change, and only in a time of generally unfixed conditions could it have come to be looked upon as a matter of course, as normal. In so far as society crystallizes and approaches, even distantly, a static condition, free competition disappears.

Generally speaking, it is for the interest of competitors to "get together." There is also a natural advantage of position in the possession of a given function which, under settled conditions, makes strongly for monopoly. Now the condition of things most hostile to these forces is such a degree of economic instability that they do not have sufficient time and a sufficiently definite basis to work out their natural results. The conditions most favorable to "getting together" and to monopoly are those which are static, because they do afford time and a definite basis.

Far from free competition being "natural" under settled conditions it can persist under such conditions only in so far as it is made a conscious object of public will. The only guaranties for its preservation are, first, that certain dynamic elements, such as the inequalities of individual capacity, cannot wholly be suppressed, and, secondly, the deliberate fostering of competition by such methods as free public vocational education and the public control of great industries, trades unions, and the like. The doctrine of unlimited competition by individuals or small associations as a

normal condition was suggested to the economists by the disintegrated conditions natural to the transitional, highly dynamic time in which they lived. To incorporate this into a doctrine of static economics must appear to a student of the larger process quite unsound. The conception contains elements essentially contradictory.

I come now to the doctrine of public control. My impression is that economists treat this as a matter distinct from the economic process, as a patch which may or may not have to be added at a given place, but which is, in any case, something of an external and alien nature. I question whether we shall understand these matters until we attain a view which shall see public control as a normal and inseparable part of the economic process itself, which has grown with its growth in the past and must do so in the future. Have not economists made abstraction of certain phases of public control to which they were accustomed, such as the existing laws of property, contract and bequest, accepting these as normal while regarding others as exceptional, as more or less justifiable "interference"? But is it not the fact that there is here a continuous socio-political process which cannot be understood except as a whole and that the delimitation I have just mentioned is merely arbitrary?

To state it otherwise, political economy assigns a great sphere to rational control in its individual aspect, making this a part of its system, but ignores, or sets apart as interference, the same thing in its collective aspect. Now rational self-direction, whether individual or collective, must be regarded philosophically as the highest phase of the life-process, and, moreover, these two phases are correlative and, in a general way, develop *pari passu*. Political economy not only recognizes but exaggerates individual rationality, assuming an almost ideal efficiency in it, while at the same time the correlative phenomenon of collective rationality is left out in the cold. The two are violently divorced, one being rejected, the other accepted, exaggerated, isolated, and formalized. Surely the conception attained in this way is highly unreal.



The attitude of economic theorists of the dominant school toward ethics I gather to be substantially that of a kindly banker toward philanthropy. He is willing to give money to worthy causes, but he insists that its principles shall in no way be mixed up with those of banking. Philanthropy and ethics are optional, personal, and matters of sentiment. Now I submit that while this attitude may have a certain justification as a method of abstraction in the working out of details, it is narrowing and debasing as applied to the large principles of any social science. What are these ethical aims of society? They are simply rational aims, representing the ideal of efficient total organization. There is a disposition to set them aside as matters of sentiment rather than of the intellect, but if we look closely at the matter we shall see that so far as sentiment is involved we are all pretty well agreed; we know that we want a just, kindly, and hopeful society. Taking this for granted we find that in practice ethics offers an intellectual problem, that of the principles in following which we may achieve the ends that all desire. A social science which is not also, in its central principles, an ethical science is unfaithful to its deepest responsibility, that of functioning in aid of general progress. I do not say that economics is, in practice, wholly unfaithful to this responsibility; but I am not sure that what it has done has not come more from the untutored good sense and good feeling of economists than from the principles of their science. The ethical considerations in the economic textbooks, so far as I have noticed, are admittedly patches, not organic parts of the doctrine.

In all inquiry into social process the central question is no doubt that of progress, of the increase of rational, efficient, humane organization. This is essentially an ethical question, and any social science which is informed by an adequate conception of process must feel it so. The economist must specialize in the economic aspect of progress, but if he does this in such a way as to separate the principles of his science from those of social ethics I conceive that he is fatally wrong.

On the whole, it would seem that the ingenious but circumscribed science of political economy deals with social process almost

wholly in its immediate and somewhat transitory aspects—such as that of market valuation—and is not, in a large sense, a science of process at all.

The question has occurred to my mind whether the spirit of political economy is not, for the most part, pre-Darwinian. Is not the tradition originally formed under the influence of an individualistic, non-evolutionary philosophy still, in the main, ascendent, modified only by somewhat superficial applications of doctrinal patchwork? It is at any rate clear to me that the spirit of American theorists, as indicated by the writers of most reputation, is alien to that conception of organic process that is prevalent in contemporary philosophy, biology, and, in some degree, sociology. I have been surprised that works so essentially static and individualistic as those of ———<sup>1</sup> and ———<sup>1</sup> could be produced at the present day. Apparently economics has an atmosphere of its own, capable of protecting its votaries from distracting innovations.

CHARLES H. COOLEY

UNIVERSITY OF MICHIGAN

<sup>1</sup> I prefer to omit the names of the authors I had in mind, as the paragraph applies no more to them than to others. It is true, in my judgment, of almost the whole body of mature theorists in what may be called good academic standing.