

ECONOMIC THEORY, POLICY, AND VALUES

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I

My paper shall be quite brief. I do wish, however, in my allotted time to raise a few questions about which I am not at all sure. And I shall raise my questions in terms of economics with the expectation that its problems are also shared by other social sciences.

Economics, however, is rather unique. Of all the social sciences, it stands proudly on its tradition of theorizing. It has long been admired for the level of its abstractions and for its analytical rigor. But I suspect that the conceit of economics is based on a misconception of the nature of economic theory; and, by extension, on the confusion over the role of theory in the social sciences generally.

For a long time economics has been preoccupied with what we might call all-purpose theoretical models purporting to describe the universe of economic things in terms of discoverable laws. Some of these theoretical models, in their more modern dress, begin by accepting tentatively a set of very simple assumptions implying a tractable theoretical system (sometimes a community of one) with an admittedly tenuous relation to the empirical world. Then by gradually making the original assumptions progressively less simple and hence more «descriptive» it is supposed the economist will, in the end, explain the «real» world as it is. This method of decreasing abstractions involves a series of successive approximations with an isolating one-at-a-time technique; it involves, in other words, an unsophisticated positivism in which economics becomes a science seeking universal or invariant relationships.

Unfortunately for this particular approach, there is an inevitable tendency to modify assumptions according to their tractability with the result that the economist's path to reality becomes an expediently

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crooked one leading him ultimately up a blind alley of analytic sterility.

I should like to state my position clearly. Insofar as economic theory looks for «laws» of economic behavior or development, it is not out of order to raise the question concerning the «existence» of such laws. In this matter I am quite agnostic. I do not agree, for example, that there are «laws» according to which capitalism unfolds, revealing itself in successive layers piled one on top of the other. From my point of view there are no inexorabilities in social causation; there are only tendencies which never fully realize themselves. «Phases» or «laws» are best understood as contingently arbitrary classifications to be judged in terms of the insights they provide; insights for changing the course of seemingly pre-determined events.

Yet I would admit that, in another sense, the limits are rather narrow. Tendencies have the capacity to unfold with rigid inevitability. These tendencies express themselves through institutions. Institutions are built upon traditions, and traditions tend to make institutions resistant to change. The resistance, however, is not inherent in the institutions as such; it lies in the converging values held by individuals; values which the longer they persist, the more they tend to be regarded as universal; the more, that is, they tend to become institutionalized.

Though these social tendencies toward rigidity exist, they can never fully realize their goal; the roots of change lie in the individual. It is the confluence of these two streams, one seeking its static ideal, the other chaos, that disturbs existence. Institutions can change only to the extent that values change. The speed of institutional change is, therefore, contingent upon this, with a lag.

We are faced, in other words, with the paradox of freedom within a social context that tends towards non-freedom. The two conflicting tendencies become the individual with his imperfect assimilation of cultural values resulting in change, and society with its relentless pressure towards conformity, seeking its static equilibrium. The pressures of society tend at times to dominate the individual, but, in the conflict, society can never completely achieve its goal.

«Laws» in the social sciences, in this setting, are not of the same order or logical type as laws in the natural sciences. The extent to which laws can be said to hold depends upon the cultural environment in a specific historical setting itself subject to change. Consequently, social laws have an implicit *ceteros paribus* assumption which makes them

static. «Laws» of development, if such exist, are ephemeral, unstable, in the long view. They are slaves to the *ceteris paribus* of the theoretician which in consequence reduces them to propositions with a tenuous and relatively brief connection to the «reality» of things. The *ceteris paribus* conditions have «content» at a given moment of time, but over time it is the shifts of the assumptions which are meaningful.

The belief, for exemple, in general laws of capitalist development, or in iron laws of wages or oligarchy, become justifications for a flight from reason and from moral responsibility. For to be «against» these laws has no meaning except as a futile moral protest. But there may very well be a moral commitment involved, to the believers, if the individual has a role to play in the historical development of these laws. That is, the laws indicate direction but it is the actions of individuals which determine the speed with which they move. Or, with an iron law of wages, there is a moral obligation (to the law) to be «unchristian» in not giving alms to the poor. But in another sense this is being christian for to give charity serves on lyto worsen their lot. Similarly for the persecution of minorities in the name of the greater glory, not of God, but of Historical Ptocess. In all these cases «law» serves as the moral absolution of the individual from the responsibility for his acts.

But then if we reject the laws of all-purpose theory, what is the nature of economic theory? Theory means abstraction from «reality» and the operational reformulation of its abstractions in terms of roughly significant regularities. Yet economic theory has been critioized for being too abstract. Obviously, all theory is abstraction to some degree. The argument is one of the tolerable limits of theoretical abstraction since it is patently not the function of theory to account for all the empirical phenomena within its scope. In theory we are condemned to abstract from «reality» with the tolerable limits, particularly in the social sciences, varying from constitution to constitution within the context of changing sets of values.

In economics, however, there is still a great deal of confusion concerning theory. Tautologies, as we all know, are true by definition : no matter how high you pole them, and no matter how complex the logical structure which inter-relates them, they do not make a science or a theory. Analogously, neither does a mass of unassimilated facts make a theory. Tautologies are needed to cement the various statements about the empirical world into a logical and coherent structure, so stated presumably as to be amenable to empirical verification. It is taking economics a long time to realize that uninterpreted deductive models are

concerned with developing the implications of definitions ; that pure induction results in hopeless and meaningless accumulations of empirical data ; that it is out of the union of reason and observation that economics will be able to meet, realistically and more effectively, the everyday problems of existence. But lest I be thought to be giving ground here, let me make it clear that I confine theory to special-purpose models of limited range and applicability ; that is, workable theory is concerned with particular problems and not with broad explanations of the economic universe.

Insofar as we choose amongst theories, we choose according to their usefulness, and usefulness is determined by the extent to which theory suggests, in the large, a meaningful solution to some paramount social problem. Ultimately we choose amongst theories according to their utility, and on grounds of compatibility with our values. There is, in other words, a value dimension in economics which precludes absolute objectivity. Economists cannot escape making judgments (even when they think they are not), and the key to any theory is in understanding the ethical problems with which it is concerned, and which inevitably condition and direct the lines of economic theorizing.

This raises another problem. What are the «facts» with which theory deals in the social sciences? The facts, for example, of national income accounting are themselves the products of our viewing «reality» through our theoretical preconceptions, which in turn are conditioned by the problems with which we are confronted. The problem of selecting those «facts» relevant to a problem introduces an implicit bias. Are corporate profits too high? Should they be considered before or after taxes? Merely to list the statistics of corporate profits obviously is not enough. But there is the further problem that even the statistical computation depends on certain theoretical precepts themselves not entirely value free.

Before one starts collecting «facts» one must have a framework, a theory, which permits a selectivity with respect to the relevance of «facts» to a given problem—at least in the larger sense of the word problem. The relevancy of facts, that is, depends upon the problems we are faced with.

Those who would suggest that economics is a science, *wertfrei* and hence objectively concerned with «facts», are the ones (apart from their confusion over the meaning of «facts») who hold the strongest value judgments. And these value judgments, because of their implicit subconsciousness, are all the more inflexible and rigid ; their

pronouncements do not admit of compromise and they take on an ex cathedra quality found only in those who believe they have somehow secured «the» truth.

Let me raise the question of what economics is. Economics is a science that specializes in analysing the past. The reason for this is quite simple : it cannot predict the future. Predicting the past, however, is not an altogether useless preoccupation. The past, in any meaningful sense, does not have an objective reality. Each generation views it in terms of its problems. It selects and thus creates its own reality. Analysis of the past, however viewed, leads to understanding which, in turn, permits the application of intelligence in determining the future. This is a rather elliptical way of saying that economics is concerned, ultimately, with policy. And policy consists of a set of prescriptions for shaping the future. It is concerned with the process of becoming ; its domain in the possible. In this sense, economics cannot be disassociated from ethics, and hence from controversy.

But to raise the question of the possible is to raise yet another question. And this relates to the relevancy of the advice given by economists. It may well be that economists do not give relevant counsel because of their tendency to ignore the political and ethical realities of a given situation, and thus fail to gain the attention they undoubtedly deserve. Let us suppose that economists scale down their policy recommendations according to some criterion of political feasibility. Then there is, as I suspect, a very strong presumption that given the political set-up of the United States, this counsel will be inadequate, say, for the maintenance of economic stability. There is, in other words, a line which economists must draw beyond which they would be forced to insist that certain political and institutional reforms be undertaken before we could every hope to achieve a dynamic and stable economic growth. In short, economists, quia economists, have been content to work within a given institutional framework. If it proves to be the case that stability is unattainable within it then economists will have to cooperate with political scientists in seeking a solution to the problem of economic stability in a mixed economy such as ours.

The problem of stability is not purely an economic one, and to the extent that economists make it so, their policy prescriptions will to that extent lack relevance. Stability is not something which just happens. It must be achieved, and requires for its achievement the use of conscious and deliberate policy rationally thought out and applied. If the lack of relevance is unavoidable because the political structure is what

it is, and stability within a democratic framework cannot be had except on the terms of the economists, then the necessary reforms become all the more necessary.

In dealing with problems, like the problem of stability, theory has a role to play. My argument is that our theoretical formulations are conditioned and directed by the problems with which we are concerned. We set up our theories stressing those variables most amenable, if one is so inclined, to centralized control. We admit no logical necessities, and, where necessary, we examine the institutional framework within which our policies are to operate; or, more accurately, so frame our recommendations that they take into account the feasible institutional changes required for the achievement of a particular social goal.

In short, economic analysis does not result in unequivocal conclusions or prescriptions. If anything, it is the policy considerations which give form to our theoretical formulations.

In the social sciences, I would argue that the question of truth or falsity, of being right or wrong, is best understood by asking whether a theory is useful in terms of the problems besetting a particular generation in a given historical setting and in terms of consequences evaluated with an ethical framework. And for the resolution of social problems, all-purpose theories are not very helpful; special-purpose theories concerned with particular problems while being aware explicitly of their ethical underpinnings are more to the point.

We do not accept economic theories on faith; or at least we ought not though many do. Theories should be accepted or rejected on the basis of their usefulness. And usefulness is a term tied up with an ethical or moral goal. Moral goals, further, change from generation to generation and hence the usefulness of theories; which is why economic theory will never exhaust itself.

At best, economic theory can only be pragmatic. It must entail the rejection of sweeping theoretical models. It is a crude tool at best, but it is only a tool. And tools are never better or more productive than those who use them.

II

Let me illustrate some of my contentions by getting down to specifics, and by arguing for the necessity of broadening the basis of economic theory by bringing in the political scientist and social philosopher. I shall take as my case in point the problem of economic stability.

Business cycles and wars bring about structural changes which in turn cause changes in the parameters (subjective and otherwise) of some of the functional relationships in our theoretical systems. The ups and downs of economic activity create internal and fundamental changes in economic organization and relationships which, in large part, account for the inability of economics to predict. Structural changes induced in the subjective and objective factors of our theories by the experience of going through a «cycle» bring about shifts, in the short run, in some of the parameters. We simply do not come out the same way we go in ; profound transformations take place by the experience itself.

Of course, this mixes the problem of how short is long and how long is short, but many of our theoretical concepts if they are to have any meaning apply over the business cycle and it becomes a bit difficult in economics to maintain that successive cycles do not affect materially the relative stability of, say, the consumption function, the marginal efficiency of capital, the liquidity preferences of individuals and firms, and most of the other variables in the Keynesian system. Further, the cycle itself, insofar as it brings about other more permanent and largely irreversible changes in the institutional complex of society, invalidates the applicability of existing theories to the changes circumstances. New problems arise requiring new theories for their solution.

The obsolescence of economic theory by refusing to take structural changes into account is dramatically illustrated by the current debate over the efficacy of monetary policy. The growth of the public debt in the last fifteen years with its consequent monetization by the commercial banks has severely limited monetary control. Add to this the growth of lending institutions other than commercial banks and the magnificent ability of consumers and firms to indulge in internal financing, and not very much can be salvaged from the unrealities of monetary theory.

Assuming peace and an economy running on purely endogenous forces and pressures, then perhaps «laws» of economic growth (whether stable, cyclical, or explosive) could be derived so that monetary and fiscal policies would effectively achieve the aims of the Employment Act of 1946. In the absence of reliably clairvoyant economists, it would seem that contrary to general expectations monetary and fiscal policies derived from existing theories cannot do the job under the changed conditions. One Congressional Committee has remarked that «it is

only by persisting in appropriate fiscal and monetary policies that the government can make its full contribution to price stability and highlevel employment over the longer period». (my italics).

But we are back once more to the observation that the problems in the short run insofar as they are not appropriately handled may cause irreversible structural changes and thereby bring about changes in the direction of movement in the long run. The pressures, political and otherwise, also have short run consequences. It is a bit ludicrous to suppose that by riding things out with inadequate policies derived from inadequate theories we will arrive at the same point in the future ; that there are paths, in other words, converging on one point.

This raises the political dilemma of American capitalism. If indirect monetary and fiscal policies cannot do the job, then reliance must be had on direct control. This further intensifies the political problem. If political institutional factors are important obstacles to getting an effective stabilization program (and it may be argued that the Congress is the greatest obstacle of all), then they preclude its solution through direct and expanded selective controls. This is indeed a dilemma. It is possible that indirect control may not be enough ; but if we cannot realize even these minimum requirements because of the perversities in our political structure, then any argument concerning direct control becomes fatuous.

Capitalism, in other words, may yet find itself in the agony of another depression. But this time there will be no reprieve; only a day of judgment. Some, like the Marxists, see capitalism's ultimate destruction. Others, wrapped in myopic euphoria, see nothing at all. It is this latter group which is the greater threat, for though there is a difference between being blind and being short-sighted, in the history of things the two are indistinguishable ; and the game is lost en passant. Perhaps the key to Marxian dialectics lies in this fact.

To return to the main stream of my argument, revolutions, in an important sense, are the result of a collective sense of outrage. They are followed invariably by counter-revolutions of one sort or another which, however, usually do not succeed in re-establishing the status quo ante. Progress in this sense becomes the positive residue of slipping back. The current counter-revolution in monetary policy is based on a theory out of step with the changed conditions, and with the added danger of slipping back so far as to have no residue to add to progress. The net result may well be a deduction ; and it is in the nature of social deductions to change the geometry of social existence

irretrievably. In social policy we can't always recoup our mistakes. Mistakes have consequences which result in profound alterations of our basic institutions. And «conservatism» becomes radical not in projecting to the future but in objecting to the social atavism of negative progress.

It should be clear by now what I am driving at. Theories in the social sciences become obsolete with the passage of time. And they become obsolete in terms of the changing problems with which we are faced, due, in part, to the structural changes that take place. Business cycles and wars merely serve to speed up the process and to force the reconsideration of existing theories and their revision in terms of these structural changes and the changing goals of society.

I now wish to raise another matter which I consider to be the core of the problem. And this is the problem of power. Power, no matter how we view it, is basically a moral problem. It is a problem which economic theory has generally avoided by retreating into the never-never land of automaticity. Adam Smith, for example, deals with individuals in competitive markets where power is so widely diffused as to be no social problem at all. In Smith there are no corporations, only proprietorships and partnerships ; or, more accurately, corporations are not the dominant form of business organization. One modern, though I should add, unintended, interpretation of Adam Smith is that of John Kenneth Galbraith. Here we substitute, in accord with modern sociological terminology, the «group» for the individual and posit a self-generating theory of countervailing power. Unlike Smith, however, where power is not a social problem, we have power concentrated in original market situation with countervailing power automatically arising to counter-balance it. We find that is, the solution to the problem of power not in breaking it down, but by opposing it with more power ; layers on layers. Insofar as countervailing power has difficulty in generating itself, the State is to come in and give it its initial push, and the anti-trust laws are to be applied with discrimination so as not to thwart the rise of this countervailing power. The theory of the State again, as in Smith, becomes that of the sideline referee enforcing the rules of the game. The only difficulty with Galbraith, apart from the validity of his argument, concerns the neutrality of the State in this struggle for power, and the logical resting place of the system as a whole.

In both Smith and Galbraith, at any rate, there is the yearning for automaticity, and thus the ability to avoid the moral problem of power by winding up the clock and letting it tick off in infinite harmony.

Still another way of demonstrating this yearning for automaticity is the concern of many economists with the logic of stability; with the gimmicks and gadgets. But the most entrancing thought of all is that if these purveyors of gadgetry were to bring all of their gimmicks under one roof they would require an economic and social revolution of no mean proportions. I rather suspect they would put their more radical brethren beyond the pale.

Economic theory if it is to find a positive program for curing the excesses of capitalism without destroying its basic institutions will have to face up to the problem of power and not seek refuge in ad hoc corrections of adolescent theory, or in flights from moral responsibility by winding up clicks of exquisite complexity.

There is, in short, the necessary reliance of stability on conscious and purposive action entailing, as it is, the a priori rejection of any pre-established harmony automatically attained. Conscious and purposive actions have consequences, and the evaluation of any deliberate act in terms of its consequences is a moral act in itself.

Economic reform if it is to be practicable must first entail political reform; which requires as a precondition a political structure and environment conducive to it. Where the transition cannot be made peaceably, revolution invariably and violently introduces the necessary political preconditions. And revolutions are rather hard to contain, let alone direct.

Economics, therefore, must seek the solution to its problems with the help and insights of the political scientist and the social philosopher; which brings me back to the nature of theory in economics.

Broad theorising has lost its contact with reality. All-purpose models in economics have become the playgrounds of wayward mathematicians. In certain quarters, however, economists are beginning to theorize in terms of special-purpose models linked directly with some particular problem. It remains yet to make economists more generally aware that they can increase the relevancy of their recommendations by placing them explicitly within the political and ethical contexts of their problems, and by examining critically the existing institutions and the value judgments upon which they are based.

Any choice, that is, between «systems» (complete with their ambiguities which alone through constant reinterpretation accounts for their continued existence), and a mode of thought which limits itself to a pragmatic, trial and error method, must go in favor of the latter.

Let me pull things together here in a series of flat assertions, because which, of their flatness, may not be defensible.

Theories are the results of our concern with special problems. Problems, in the social sciences, are concerned with ethical goals. Theoreticians differ in value judgments. Therefore, theoreticians in the social sciences differ in their theoretical constructions of «reality». They differ, that is, in the problems they see, or, better still, they see the same problem in different ways, and, consequently, the «facts» relevant to the problem. There is, in other words, a selectivity of facts for the analysis of social problems. Some «facts» included in one theoreticians's model are excluded from another's those held in common differ in their weights and in their theoretical and causal interrelations. And as I have indicated, the truth or falsity of theories is basically a matter of relevance.

I suspect, though I should not want to be pressed in this matter, that the theory of verification in the social sciences is of a different order than that found in other sciences ; that the moral preconceptions of social theorists determine the shape of their theories, their classification systems, their concepts and hypotheses. It may be that the inevitability of viewing «reality» through a particular set of values results in a selective exclusion of data, which raises the question of whether objective criteria of relevancy exist for the evaluation of social theories in the light of this selective process.

Differences in theory, in other words, may be due to seeing the same problem through differing sets of values. Further, the nature of social problems change in terms of the structural changes I have emphasized. If these changes occur within one generation, theories become invalidated in the sense of not being relevant to the new situation. If they take place over longer periods of time, we are then faced with the phenomenon of the evolution of social theories in terms of the interacting values and problems of succeeding generations.

How do we choose amongst competing theories ? In terms of their usefulness, with usefulness sometimes being decided by the weight of professional opinion and, at other times, by the theory's ability to cope successfully with the problems at hand. As the problems change over time, so do the theories. Or at least this has been the case, to a large extent, in economics.
