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Addendum to The Theory of Economic Progress

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groups and classes. The strength and driving power of the movement here described cannot be doubted, although it is difficult correctly to appraise the sources of its strength. Was it merely the assertion of the totalitarian class tendency, which no doubt is inherent in Marxism, parallel to the victorious assertion of the same tendency in Russia and certainly much influenced by it? Or was it primarily a reaction to the growing totalitarian tendencies in German education in the opposite direction? At any rate, it was among the most spectacular signs of democratic disintegration in Germany.

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### Addendum to *The Theory of Economic Progress*

I suppose that everybody who ever published anything has later wished he could alter it. At all events I find myself in that situation; and since one alteration that I would make, if I could, in my *Theory of Economic Progress* might help some readers to avoid what seems to be the commonest misinterpretation of the central theme of the book, I am tempted to try to offer it to my colleagues in this form.

We would all agree, I presume, that the values we all seek, individually and collectively, are those of human life and personality, the fuller realization of our potentialities as human beings, a greater measure of the creative achievements of the human spirit which in some sense or other make life worth while. The question is, What do these fine phrases mean?

For the overwhelming majority of mankind throughout history the answer to this question has been provided by revelation and authority, and, conversely, faith and obedience. But the development of reason destroys the intellectual sanction of authority and the validity of revelation, with the consequence that reason finds itself confronted with the sixty-four-dollar question.

The classical theory of the organization of the economic life of the community through the medium of price is a part of the effort we have made to answer that question. I don't see how anybody can challenge this. It has been declared and explained over and over again in a thousand different ways, and nobody has ever even attempted to explain the origin and growth and present meaning of the price theory in any other way. The question is whether the answer is correct and adequate. Offhand denial that it is any answer to any question seems to me to mean only that the deniers know in their hearts that it will not do.

What form does the answer take? In effect it is that of referring the whole problem to the individual conscience, one which comports closely with the whole "Protestant" trend of modern times, as many students have exhibited at length. We may disavow ever thinking that the price system achieves perfect justice, but we certainly have thought, and still think, it

does something. The most popular current phrase for what it does is that of bringing about the "efficient use of resources." And what, pray, does "efficient" mean? We would all agree, I judge, that it does not refer to any economist's notion of what is or is not efficient but rather to the consciences of all members of the community as registered in their "wants."

The price theory reposes a very great burden of significance upon wants, for obvious reasons. Not to do so in effect robs the key phrase of its key word, "efficient." It then becomes simply "the use of resources" that price effects, and we are instantly brought up against the unanswerable question, "So what?" If the price system has any significance at all, it is the significance it gains by "registering wants."

And what are wants? In recent years economists have taken to replying that wants are unanalyzable "primary data" and dropping the question like a hot poker. And well they might! It's a red-hot question, right enough, and it only gets hotter if we drop it back into the fire. For wants are significant only if they have the sanction of authority and the validity of revelation. That of course is what Protestantism claimed for the individual conscience. The only alternative is utter relativism, and that is the inescapable corollary of current sociological teaching.

This "absolute relativism," if I may be allowed such a phrase, is of course unsatisfactory both intellectually and practically, as a great many students have long since realized. Indeed, it is that realization which has impelled many intellectual leaders to turn back to the other alternative. But their resolution of the dilemma of contemporary social thinking, justified as it is by the intellectual bankruptcy of complete relativism, nevertheless does also merit the charge that it is a "failure of nerve." For the resolutely objective scrutiny of human behavior, especially in historical perspective, does reveal something more than the relativity of all wants and values to the fashions of the time and place.

Viewed in historical perspective the panorama of human experience does constitute an amazing achievement. It is easy enough to sneer at bathtubs and air conditioning. Nobody considers either of these the pinnacle of modern achievement. (One might just as sensibly dispose of Greek civilization by sneering at the absurd tonsorial practices of the contemporaries of Aeschylus and Plato.) Even if the last five centuries are left completely out of account, the span bounded by the Aurignacian caves and the cathedral of Chartres still represents an amazing achievement. To say that one society wanted caves and the other wanted cathedrals is simply ridiculous. The inescapable truth is that human experience does manifest a developmental pattern of some sort. To close one's eyes to it is simply to go blind.

This is the point at which I should like to offer my addendum. Because I have tried to focus my readers' attention on this developmental pattern and have tried to avoid repetition of empty commonplaces about the values of human life and personality and all that sort of thing, I seem to have left the impression that I am offering "mere gadgets" as the criterion of value *instead of* human life and personality, the fuller realization of our potentialities as human beings, the creative achievements of the human spirit, and so

forth; and because I have tried to exhibit and emphasize the logical and ethical and therefore economic significance of the continuity which is actually present in the technological process and in it alone and is therefore the sole alternative to the absolutism of revelation and the utter relativism of "wants," I seem to have given some readers the impression that I regard "mere continuity" as a master principle without reference to what it is that is continuous.

But misunderstandings such as these are as unnecessary as they are unfortunate. Surely there is no question of substituting anything else for human life as the sum of values. By all means let us assume our common humanity as the repository of all value. The question then is, With what meaning can we fill this otherwise empty commonplace? If I have questioned the validity of the axiom which makes "consumption" the "end" to which all other economic activity is the "means," I have done so because, for reasons I have given at some length, these words fail to supply the meaning we require and are largely responsible for the intellectual sterility of the price theory of which they are an indispensable part. They refer only to the "satisfaction" of "wants," of which we can say only that people want what they want.

In contrast to all that, the technological continuum, which contains all the arts, all the sciences, and the whole vast range of tools and skills and know-how of which the arts and the sciences are the highest expression, does in fact contain and embody the judgment of all mankind and of all ages as to what is most valuable in life and what makes life worth while. As such it is *not* something to be considered *instead of* the values of human life and personality, the fuller realization of our potentialities as human beings, and the creative achievements of the human spirit. Neither is it "merely" the scientifically-known instrumental "means" to the attainment of otherwise-known consummatory "ends." On the contrary, it is the answer which reason and organized knowledge give, and have always given, to the question what these fine phrases—human life and personality, the creative achievements of the spirit—mean. Living is doing. Only in doing does living become significant.

Whether this life-pattern of mankind is properly or adequately designated in terms of "instruments" or of "techniques" is a legitimate question. The terminological difficulty is indeed considerable. Long usage has wrought a most unfortunate cleavage between art and science and between both of these and the humbler but vastly more extensive activities of the whole race. The people who say that art embodies the solution of the problem are right but only partially right, and the same is true of science. Since both of these are consummations of activities and values that are common to all mankind, it seems closer to the truth to give the whole pattern some such common designation. This is the consideration that led Dewey to use the designation "instrumentalism" and Veblen that of "technology."

Dewey himself has recently declared that "technology" is after all perhaps the less misleading term, but that is certainly an open question. Certainly the language we use in dealing with these problems is open to improvement at

all times, and anybody who can find ways to improve on it will be conferring great benefits on all of us.

No such benefit accrues from the sneers of those who dismiss the whole effort as that of "making a god of the machine," "building more machines to build more machines," etc., etc. Moreover, those who sneer assume a very grave responsibility. What is their answer to the conundrum of the utter relativity of wants? They have managed to becloud the basic issues to which their own efforts are presumably addressed with a smoke screen of curves and integration signs. But the issues still remain, and meanwhile time is running out. Revelation and authoritarianism still threaten to resume their ancient rôle. If price theory is only a way of abandoning the effort in the grand manner—if "value is indefinable," "wants are primary data," and "equilibrium is just equilibrium"—then its exponents can ill afford to sneer at anybody. If, on the other hand, price theory does indeed contain the answer, then its exponents would be well advised to find it and be quick about it.

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### Cost Accounting and Statistical Cost Functions

The note which appeared under this title in the June, 1945, issue of the *Review* suggests that the linear biases of cost accounting contribute to the linearity of statistical cost functions, as these have been derived. The case presented was summed up in the statement: "Accounting data with their hazy rubrics and linear biases seem incapable of producing anything but a linear cost function."

Now it is true that the procedures of cost accounting are such as to yield figures for *unit product* cost with certain biases. The conventional notion of "normal cost" employed in the great bulk of all cost accounting is a kind of annual average cost; as such, it levels out cost fluctuations that arise from deviations from what is considered "normal" for the period, including variations in the rate of activity in the plant or department. It is also true that "the accountant's mixture of variable and fixed costs" is responsible for certain kinds of errors that may have misleading effects.<sup>1</sup> However, these facts need not surprise those who are familiar with the thesis developed in J. M. Clark's *Economics of Overhead Costs*.

There is a distinction to be maintained between accounting records of *cost incurred*, and those reclassifications of cost made by cost accounting procedures. The initial appearance of costs in accounting records as those

<sup>1</sup> See, for instances of the cost accountant's recognition of this:

Fred V. Gardner, *Variable Budget Control* (New York, McGraw-Hill, 1940), pp. 41-48, *ff.*

J. J. W. Neuner, *Cost Accounting* (Chicago, Irwin, 1940), pp. 674-97.

W. J. Vatter, "Accounting Measurements of Incremental Cost," *Jour. of Bus.*, Vol. XVIII, No. 3 (July, 1945), pp. 145-56.