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# Adolph Lowe's Methodological Alternative for Economic Research and Policy

## *"Political Economics" as an Experimental Method for Achieving Growth, Stability and Continuity*

By WILL LISSNER\*

ABSTRACT. Social scientists and philosophers are engaged in a profound re-examination of the foundations of *economic science*. Among them the economist, Adolph Lowe, opened a new vista. First, in his *Economics and Sociology: A Plea for Cooperation in the Social Sciences* (1935) he argued compellingly for a *unified social science*. Lowe introduced there the concept of "*instrumental analysis*" which he greatly modified in *On Economic Knowledge* (1965) and applied to a major issue of contemporary economics in *The Path of Economic Growth* (1976). Instrumental analysis is intended to achieve a system of "*political economics*," a theory for deriving one or more paths—a sequence of positions—over which an initial state of an economy can be transformed into a terminal state—a goal itself stipulated by political decision. Instrumental analysis is also used to determine measures of *public control* to achieve the behavioral pattern suitable to set and keep the system on the goal-adequate trajectory.

### I

#### SOCIOLOGICAL ASPECTS OF ECONOMIC REALITY

THE DEBATE AMONG ECONOMISTS about the fundamentals of their science—the notions of the 'rational economic man,' of 'perfect' competition, of a system of symbols and labels free of 'values', of a society

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fed, clothed and sheltered by an economic system that, by happenstance or divine design, is the 'best' of which the human 'mind' can conceive—rages on. Sometimes it yields more heat than light. But it is now clear that it is leading to new breakthroughs in the development of the social sciences like those which, in an earlier generation, transformed sociology through the work of such scholars as Emile Durkheim, Max Weber, Franz Oppenheimer and Karl Mannheim.

One of the chief pathbreakers is the economist Adolph Lowe. As Robert L. Heilbroner (Lowe's most perceptive commentator and himself one of the important contributors to the new theory of the nature and role of economics in societal reconstruction) has pointed out, Professor Lowe struck off in several new directions in his early work (1). Lowe's *The Price of Liberty* (1937) inquired into conditions of political freedom. His *The Social Productivity of Technical Improvements* (also 1937) "probed the interface of technology and economics" (2).

However, in economics proper his first major work was his *Economics and Sociology: A Plea for Cooperation in the Social Sciences* (1935) (3). This was to initiate a lifelong investigation, still not concluded. Of this work the celebrated British sociologist, Morris Ginsberg, pointed out in his foreword that the issues Professor Lowe dealt with "are of old standing," going back (in modern times) at least to Comte (4). The complexity and interrelatedness of social phenomena studied by the social and behavioral sciences were apparent. But how to study the interrelationships baffled the economists and they early gave up the effort. Thus Alfred Marshall was to remark in his Inaugural Lecture in 1885:

It is vain to speak of the higher authority of a unified social science. No doubt if that existed economics would gladly find shelter under its wings. But it does not exist; it shows no sign of coming into existence. There is no use in waiting idly for it; we must do what we can with our present resources (5).

The sociologists, however, showed more fortitude. Works like Edward Alsworth Ross's *Social Control* (1901)—(Ross, of course, came to sociology through economics)—and Ogburn and Goldenweiser's *The Social Sciences and Their Interrelations* (1927) sought to encompass economic as well as societal processes. (Eventually they were to produce the subspecialties, economic sociology and sociological economics, as well as the eclectic one, demography; a parallel development in anthropology produced economic anthropology as well as its sociological counterpart, social anthropology). The philosophers, too,

did not shy from the challenge. John Dewey, originally a psychologist, had the temerity to assert what the mathematical physicists were later to discover, that the vision of a 'unified social science' was only a peek at a portion of a vast truth, the unity of all science in a unified world of ultimate reality. (So Dewey embarked, with a group of philosophers, on an ill-fated enterprise, an encyclopedia of unified science) (6).

Adolph Lowe was one of the few economists to face up to the problem. He saw at once that

All the problems we treat in applied economics, in its descriptive as well as its political section, and in economic history, have a particular sociological aspect which requires special investigation (7).

He noted that Eileen Power (he might have added Henri Pirenne, Carlton J. H. Hayes and Harry J. Carman) and the economic historians were, more and more, integrating political history with economics and sociology, "finally bringing together problem and data." (8). But he was aware that economic sociology, as it was generally conceived, only brought "the outworks of the two social sciences" in contact with each other. So he went on to the foundations by attacking the preconceptions and assumptions—economic rationality, perfect information, the 'free' market, etc.—of "pure" economic theory as the neoclassical writers envisioned it. In doing so he disclosed the quite specific sociological factors from which the so-called laws of the market are actually derived. He concluded: "Modern dynamic evolution enforces cooperation upon economics and sociology because the real chain of reciprocal causation carries the chain of reasoning across any specialist borders" (9)

This was, in fact, what classical economics had tried to do:

For Adam Smith and his followers and, *mutatis mutandis*, also for Karl Marx, all macroeconomic processes were strictly interdependent. They were related through a number of negative and positive feedbacks . . . say, between the level of real wages and the birth rate or between division of labor and the extent of the market . . . the elements from which "laws" of population, of accumulation, and of technical progress could be derived . . . (10).

Their conclusions' lack of realism brought the classical procedure into discredit, and reduced the research technique of post-classical theory to what Lowe calls "instrumentalistic analysis." More will have to be said about this terminology a little later; in the present context the term is equivalent to what is conventionally called 'partial equi-

librium analysis' in the scientific language of economics. "It aims at isolating any long lasting movement [of the variable under study] by an imagined elimination of all simultaneous events in other parts of the system, which probably might influence and deflect the process under consideration" (11). In certain economies, under the conditions of early capitalism with the high mobility of the factors of production and thus the ready short-run adjustment of all distortions, this hypothesis may have had some realistic significance. Due to monopoly, privilege and other sources of rigidity, under modern conditions of technical and social immobility the assumption that the system at large will find itself in equilibrium for any large span of historical time is totally unrealistic. Rather, in analogy with the classical procedure, the state and motion of the system at large must be investigated before any partial analysis of changes can be undertaken.

It is in this context of what today would be subsumed under the wider term of "systems analysis" that sociological factors directly enter economic analysis, bestowing on it an evolutionary character. This must be so because the social structures of economic systems undergo profound historical changes. In this connection Lowe refers especially to Franz Oppenheimer's "synthetic sociology"—Oppenheimer, often called the 'father of modern German sociology,' came to sociology, it will be recalled, by way of first medicine and then economics (12).

## II

### 'INSTRUMENTAL INFERENCE' AS RESEARCH METHOD

A FINAL DIFFICULTY ARISES. If we surrender the solid ground of order represented by equilibrium as the "coordinate system" for analysis, "do we not enter the realm of unlimited possibilities, are we not trying to discover the rules of chaos . . . ?" (13) "But the very fact that the market system is still functioning in spite of many setbacks tells us that industrialism is to classical utopia not as chaos to equilibrium. Closer examination even reveals a strange regularity of the real disequilibrium" (14). This remark refers to the regular phases of the business cycle which, when writing this book, Lowe thought could replace equilibrium as a new "coordinate system" for the analysis of all special problems. Subsequent empirical work, in particular a closer study of the Great Depression of the 1930s, convinced Lowe that the cyclical motions were not regular enough to serve this systematic purpose. In fact, he went much further. Considering the obstacles that have so far impeded the search for empirically valid explanatory

and predictive laws and generalizations, he concluded that the Mecca of economic theory does not lie where neoclassical and also Marxian theory looks for it: in "positive" analysis. But we may yet succeed in constructing a theory and in building reality-oriented models that reveal the means suitable for the attainment of stipulated goals. In other words: prescriptive analysis.

The result of this return to pondering the fundamentals of an economic science was his epoch-making book *On Economic Knowledge: Toward a Science of Political Economics* (15). In Chapters 5 and 11 of that work Lowe expounds the characteristic method of such a Political Economics, which he labels "instrumental inference" (16). By choosing this terminology he has not made understanding easier for those who are familiar with his earlier work, even if the meaning he now attaches to the term "instrumental" agrees better with the typical dictionary definition. Now he is no longer concerned, as he was in *Economics and Sociology*, with the positive analysis of specific changes occurring in a well-defined system. Instrumental inference is now meant to denote a "search procedure through which the suitable means to a stipulated end . . . are to be discovered" (17).

Lowe has repeatedly elaborated this new method, and has also given the reasons why, under the conditions of present day organized capitalism, he regards it as the only procedure by which verifiable theorems can be derived. The most lucid exposition will be found in his address before the Association for Evolutionary Economics, "What Is Evolutionary Economics?" from which I am going to quote at some length (18).

In his address, Dr. Lowe asked, "How can we construct a practically relevant economic theory? Let me start with a more general question. Are there any universally valid principles—let us call them "axioms"—that, according to the ruling methodology of science, are implied in *any* act of theorizing? In fact, there are two such axioms." He answered as follows:

To clarify this proposition, I turn for a moment to the natural sciences. There all scientific thinking—as opposed to magic—takes for granted the existence of *an outside world, moving independently of Man's volition*. Whether natural processes are seen as activated by inherent tendencies of goal-seeking—the Aristotelian view—or whether in the modern vein they are regarded as subject to efficient causality, science treats them as "autonomous," that is, as unaffected by what the scientist does. Where, as in the subatomic realm, we cannot prevent the act of observation from impinging on the phenomena observed, such intrusion actually diminishes our knowledge by shrouding it in "uncertainty."

Autonomy of the research object is one axiom—*inherent orderliness* of the research object is the other. The scientist aims at more than a mere registering of episodic events. His tool chest—observation, experiment and ratiocination—is expected to reveal regularities of state and motion: “laws” or at least probabilistic generalizations.

It is noteworthy that those axioms of autonomy and orderliness have been at the root of the science of nature from its beginnings in Greek natural philosophy to our own day. But it is no less noteworthy that those axioms were introduced into social and especially economic thought only during the modern era. Before then it was a predominantly *normative outlook*, issuing in moral postulates, that directed the inquiries of ancient and medieval thinkers. Even during the mercantilist period when this moral concern was replaced by the political interest in national expansion, the social cosmos was by no means regarded as autonomous, but as in need of and open to human intervention.

*Only with the classical and neo-classical notion of a competitive equilibrium did economics adopt the natural science axioms.* In analogy with the movement of the planets, the spontaneous actions of the autonomous bargaining partners in the market were supposed to create a macro-order—an order that any attempt at planned interference could only distort.

What is essential for a full understanding of the orthodox methodology is to lay bare the ultimate postulate on which this faith in a prestabilized order rests. It rests on the postulate of a *universal and uniform behavioral vector*—originally personified in a receipt-maximizing and expenditure-minimizing economic map, but nowadays formalized as a colorless maximum or minimax principle. In analogy with gravitation this behavioral principle issues in an *immutable law of economic motion*. With the help of this law of motion, traditional economic theory derives from any given state of the system the future state induced by a change in the initial conditions—the hypothetico-deductive method. And indeed. . . during the liberal era of capitalism, a unique *combination of external pressures*—mass poverty, unbridled competition and a Puritan work ethic—did enforce a high degree of maximizing behavior as the very condition of economic survival. Therefore, Ricardian economics, when qualified by certain Marxian insights, did not do so badly as a theory of 19th century capitalism. . . .

[There is no need for] a lengthy exposition as to why this is no longer the world in which we live. Growing affluence of all strata, monopolistic organizations on both sides of the social fence and a boundless desire for instant gratification have loosened those order-bestowing pressures. As a result, *market behavior is today the great unknown*. In many a large corporation, profit maximization has been diluted by homeostatic tendencies. But quite generally, considering the ever-expanding time horizon of decision-making, *any* action—increasing or decreasing output, raising or lowering prices—may in different circumstances serve the aim of receipt maximization. Thus actual behavior cannot be predicted any more. Moreover, technological change, the major vehicle of this transformation, adds to destabilization. Its disturbing effect was mitigated so long as vast opportunities for economic expansion prevailed. Now the self-assertion of the Third World and our growing awareness of the ecological dangers are rapidly closing this safety valve, and the result has been instability, the progress of which has become our daily experience. . . .

Now since it is no longer possible to deduce an unknown future state and thus the consequences of any measure of public policy from the initial conditions and a law of motion, I have inverted the problem. I no longer treat the future state of the system

as unknown; I treat it as a *known goal*, established by political decision—therefore I speak of Political Economics. Examples for such goals are full employment with a rate of inflation not exceeding 4 percent, or a 5 percent growth rate of which the rise in productivity is no less than 3 percent, or any other politically desirable goal. Then the first task of analysis is the derivation of one or more *paths* over which the initial state can be transformed into the terminal state. By a path I mean a sequence of positions the system must assume on its way to the stipulated terminal state. Such positions can be described in terms of physical and price relations between the major variables, such as inputs and outputs, employment and income, consumption and investment, *et cetera*. Once we know that path, we can establish the *behavioral patterns* that will act as forces to set the system on the goal-adequate trajectory. Thus, behavior, though initially an unknown, can be determined from the knowledge of the goal-adequate path and certain technological rules.

In this manner we obtain knowledge of the structural and behavioral conditions suitable for the attainment of the goal. But we cannot assume that these *suitable* conditions coincide with *actual* conditions. This now leads us to the final step in instrumental analysis—to establish *measures of public control* suitable to transform actual into required behavior. The potential arsenal of such controls is quite large. It includes mild measures, such as guideposts and other techniques of persuasion, compensatory public investment; but also wage, price, profit and investment control; and in extreme cases of resistance, outright coercion (19).

### III

#### 'POLITICAL ECONOMICS' AS A SYSTEM OF SOCIAL CONTROL

GERHARD COLM, an academician who became one of the most influential economic advisers in modern times (he served the Weimar Republic and then the President of the United States in two Roosevelt and two Truman administrations), and who was himself the developer of a system of "projections" as a guide for economic policy, greeted Lowe's *On Economic Knowledge* "as a very important work." His only criticism was that it didn't go far enough. "It leads up to the door and into the entrance hall of a magnificent edifice, but we are given no more than a glimpse of the interior," the great econometrician remarked, somewhat ruefully. He added, however, "For the time being, we should be grateful for what we have got" (20).

Dr. Colm did not know that a book depicting the interior was projected and, alas, he died before it appeared. I refer to Lowe's latest book so far, *The Path of Economic Growth* (21), a work that not only seeks to refine the instrumental method, but applies it to one of the major practical issues of our time. As Heilbroner explains, Lowe defines the main problem of democratic society as one of maintaining adequate performance "for a noncollectivized system in which social



and natural constraints no longer produce dependable economic behavior." Heilbroner goes on:

Therefore, theory takes on a new significance for Lowe, not merely as a coherent system of defensible abstractions and generalizations, but as a means of prescribing the actions necessary for social order and continuity. The remedy, however, is not to change theory to describe actual behavior, because actual behavior will not produce a viable social outcome in the altered setting of contemporary society. The rapprochement between theory and reality must come the other way, in an effort to alter behavior so as to permit a relatively free society to survive (22).

Professor Lowe has pointed out that even though the classical economists—Smith, Ricardo, Marx—failed in their efforts to explain the episodes of growth and decline in the long-term development of the economy, they included in their models also the impact of the social and technological environment which is created and continually re-created by the economic processes themselves. This idea has by no means lost all relevance. Some of today's factors of production or inputs are yesterday's outputs. Through a chain of reciprocal relations of cause and effect, the social and technological stimuli that sustain long-term economic motion appear themselves as the product of economic growth, and an all-inclusive theory of socioeconomic evolution emerges that eclipses the most ambitious program of modern empiricists, such as Abramovitz, Kuznets or Lewis.

This, then, is the methodology and procedure Lowe applied to the problem of economic growth. In the first of the four parts of *The Path of Economic Growth* he describes his basic model of the structure of production (which Edward J. Nell, in an appendix, compares and contrasts with the multisectoral models of von Neumann, Leontief, Sraffa and others, and with the two-sector models of Hicks, Spaventa, Goodwin and Morashima.) The other parts of this work are concerned with the dynamics of labor supply, natural resources supply and of technological progress. In an all-too-brief concluding chapter, Professor Lowe points out:

Now in order to keep a complex analysis within manageable bounds, we have been arguing on the highest possible level of abstraction. Thus only the essential variables have been taken into account: a production schema based on no more than three fully aggregated sectors; an institutional framework that depicts only the extreme opposites of sociopolitical organization: pure laissez-faire and complete collectivization; only one macrogoal, Balanced Growth, and a sparse number of path criteria (23).

Much research, discussion and debate will have to be undertaken by competent critics before it is clear whether Dr. Lowe's version of instrumental analysis is what it appears at first glance to be: assurance of a new direction for economics that promises to yield a theory adequate for achieving a democratically-controlled market process in a free society, performing on a satisfactory level with stability and continuity.

In this connection, two symposia in which economists, sociologists and philosophers shared their understandings and difficulties with Lowe's system in February and March, 1968, are of importance. Some of their papers—unfortunately not all, I say as one who was privileged to listen; the problems these specialist readers encountered were as enlightening, I thought, as their understandings and insights—were published as *Economic Means and Social Ends: Essays in Political Economics*, edited by Professor Heilbroner who also contributes a very helpful introduction. This volume is especially noteworthy for the first paper, "Toward a Science of Political Economics," in which Dr. Lowe presents the gist of *On Economic Knowledge*, and for his concluding "Rejoinder" in which he himself offers a critique of his work. It is reading essential to a full understanding of Lowe's ideas (24).

Still, those of us who believe that American capitalism, as we now know it, will survive only if it undergoes structural reformation will find it hard to believe that this form of planning within the market system, any more than the indicative planning employed abroad with limited success, will solve all the problems of monopoly capitalism. On this account we await with keen anticipation Professor Lowe's next book, *The Dilemma of Freedom*.

1. Robert L. Heilbroner, "The Veblen-Commons Award: Adolph Lowe," *Journal of Economic Issues*, Vol. 14, No. 2 (June, 1980), p. 241.

2. *Ibid.*

3. *Loc. cit.* (London: George Allen & Unwin, Ltd., 1935).

4. *Ibid.*, p. 11.

5. Quoted by Ginsberg, *loc. cit.*, p. 14.

6. Gunnar Myrdal, who shares a theory of cultural determinism with Allan G. Gruchy (one which I hold), in contrast to the economic determinism held, to a degree, by Lowe, addressed the limited vision: "The Unity of the Social Sciences," an address before the Society of Applied Anthropology, Amsterdam, March 21, 1975 (cited by K. W. Kapp in T. Huppel, ed., *Economics and Sociology: Towards an Integration* (Leiden: Martinus Nijhoff Social Sciences Div., 1976), pp. 82-83.)

7. Lowe, *Economics and Sociology, op. cit.*, p. 31.

8. *Ibid.*, p. 32.

9. *Ibid.*, p. 131.

10. Lowe, *The Path of Economic Growth* (Cambridge, Eng.: Cambridge Univ. Press, 1976), p. 5.

11. Lowe, *Economics and Sociology*, p. 89.

12. Appreciations of the influence of Franz Oppenheimer, Lowe's teacher and intimate friend, on Lowe's thought run through all Lowe's works, e.g., Lowe, *Economics and Sociology*, p. 155n. For a comprehensive account, see a little known but fascinating paper, Lowe, "In Memoriam Franz Oppenheimer" (London: *Yearbook of the Leo Baeck Institute*, Vol. 10, 1965, pp. 137-49), an address before the Leo Baeck Institute, New York, Feb. 25, 1965.

13. Lowe, *Economics and Sociology*, p. 89.

14. *Ibid.*, pp. 89-90.

15. *Loc. cit.* (New York: Harper & Row, 1965); 2nd ed., revised and enlarged with a new postscript (White Plains, N.Y.: M. E. Sharpe, 1977).

16. Ch. 5 is headed "Toward a Science of Political Economics," pp. 128ff.; Ch. 11, "Instrumental Inference in Operation," pp. 264ff. But see also the section, "The Instrumental Deductive Method" in Ch. 10, pp. 251-53, and especially that chapter's appendix, pp. 261-63. Incidentally, Dr. Lowe's use of the term "instrumental" should not be confused with John Dewey's; as is apparent, the two definitions are different.

17. *Ibid.*, pp. 264-65.

18. *Loc. cit.*, *Journal of Economic Issues*, Vol. 14, No. 2 (June, 1980), pp. 247-54.

19. *Ibid.*, pp. 250-53.

20. Colm, "The Dismal Science' and 'The Good Life,'" *The Reporter*, New York, July 15, 1965, pp. 46-48; the quotation is from p. 48.

21. *Op. cit.*

22. Heilbroner, "The Veblen-Commons Award: Adolph Lowe," *op. cit.*, p. 243. (This paper is essential reading for an understanding of Lowe's system of ideas.)

23. Lowe, *The Path of Economic Growth*, p. 286.

24. I have to thank my lifelong friend and *Journal* colleague, Professor Lowe, for assistance in understanding his theory of research method and economic policy, help that went far beyond the ordinary claims of the office of friendship. He is not responsible, of course, for the deficiencies of, and the omissions in, this paper.

### *Monopoly, Inflation and Taxation Erode Income*

A FAMILY OF FOUR MUST EARN a pretax income of more than \$22,000 in mid-1981 to equal the purchasing power of \$10,000 in 1970, the Conference Board has reported.

The four-person household with \$10,000 gross income in 1970 needs \$22,477 in 1981 to keep up the same standard of living. The rise in prices over the past decade has cut the purchasing power of a dollar by more than half, taking a \$9,746 bite from 1981 income. Federal income and Social Security taxes will siphon off another \$4,091 this year.

While the Reagan Administration proposes to cut personal tax bracket rates by almost one-third over three years, the 1981 cut would equal only 5 percent. If this tax cut is approved, the hypothetical family of four would still need a pretax income of \$22,291 in 1981 to equal the 1970 purchasing power of \$10,000.

The Conference Board estimates that median family income will reach \$24,035 in 1981, up from \$9,867 in 1970, but this rise will barely keep pace with inflation and taxes. After taxes, the 1970 family was left with \$8,528 to spend. In terms of 1970 dollars, today's median income family now has \$9,184 after federal taxes, substantially less after state and local taxes.

[From JOSEPH L. NARR for the Conference Board.]