PORTRAIT Clarence Ayres

Author(s): DONALD A. WALKER

Source: *Challenge*, JULY/AUGUST 1980, Vol. 23, No. 3 (JULY/AUGUST 1980), pp. 65-68

Published by: Taylor & Francis, Ltd.

Stable URL: https://www.jstor.org/stable/40719886

PORTRAIT

Clarence Ayres

Clarence Edwin Ayres will be remembered principally for two supreme achievements. He was, after the mid-1940s, the most important exponent of institutionalist economics; and he was a remarkable teacher, whose personal influence over generations was greater than that of his writings.

Ayres began his intellectual career as a student of philosophy at Brown University, taking an A.B. degree, with a minor in economics, in 1912, and an M.A. in philosophy in 1914. In 1917 he graduated with a Ph.D. in philosophy from the University of Chicago, where the influence of John Dewey, Thorstein Veblen, Robert Hoxie, and Wesley C. Mitchell was strong. Their outlook struck a sympathetic chord in Ayres's naturally inquiring and rebellious mind, and he began, even as a graduate student, to try to deal with the issues they raised. His doctoral dissertation, *The Relationship Between Ethics and Economics*, examined Dewey's philosophy and Veblen's economic ideas, two strains of thought that he was later to synthesize into his own system of analysis.

From 1917 to 1920 Ayres was employed as a teacher of philosophy at a variety of colleges. At Amherst he worked with a group of radical young thinkers, including the institutionalist Walton Hamilton, who was his mentor for several years. At Reed College he joined in an experimental educational program. He became an associate editor of the *New Republic* in 1924, distinguishing himself in a brilliant company by writing knowledgeably on topics as varied as psychology, politics, and literature. He lectured on principles of education at Ohio State, and philosophy at the University of Wisconsin. In the summer of 1929, he taught economics at the Washington Square College of New York University, and edged closer toward institutionalism by collaborating with his colleagues in writing part of a textbook entitled *Economic Behavior: An Institutional Approach*. Then in 1930 he accepted an appointment in the Department of Economics at the University of Texas at Austin, committing himself to economics, although retaining what was to be a lifelong interest in its philosophical aspects. In Austin, apart from brief stints with the government in Washington in 1935 and 1936, he settled down to formulate the principles of institutionalism.

Ayres's emergence as an economist had been a lengthy process. He was nearly 40 years old when his first publication on institutionalist economics appeared. Once he concentrated on his objective however, most of his major ideas were developed relatively quickly, during the period between 1938, when he published *The Problem of Economic Order*, and 1944, when he published his major work, *The Theory of Economic Progress*. Subsequently, his efforts were devoted to restating tirelessly his central themes, to sharpening and reformulating parts of his theoretical system, and to developing his notions on underconsumptionism and public policy.

Ayres had many roles, interests, and activities. He was a devoted husband, father, lover of music, and ardent supporter of academic freedom. As a teacher, his influence was intimate and direct, not transferable through his disciples, who lacked his charisma and pedagogical skills. I had the opportunity to observe his talents from 1952 to 1956 as a graduate student in his classes and as his assistant, in which latter capacity I attended and graded his popular undergraduate course, *Introduction to Social Science*. His ability to inspire his students with enthusiasm for ideas was phenomenal. Ayres had been raised in the strict fundamentalist tradition of his father's Baptist faith, and although he had rejected the teachings of his childhood, it often seemed to me that the religious cast of mind was manifested in the exhortatory tone and impassioned proselytizing of many of his publications, and in the evangelical atmosphere that he generated in the classroom. He created for his students a heady intellectual and emotional experience, compounded of the fascination of iconoclastic ideas and the excitement of glimpsing a vast sweep of new perspectives for the first time. Within a few months even the most unpromising undergraduates would be transformed from unquestioning conservatives to fervent liberals, secure in the belief that they had achieved a special understanding of the real moving forces of civilization. His graduate students received all those benefits, plus the exhilarating conviction that the entire entrenched and prestigious establishment of orthodox economics was wrong, and that, almost alone among the hundreds that had labored at achieving economic understanding, Veblen and Ayres were right.

Critique of orthodox theory

The first part of Ayres's system of thought was a critique of orthodox theory. He believed that orthodox economics had fallen into fundamental and incorrigible errors, and that this had to be demonstrated in order to clear the intellectual ground for an alternative. The further orthodox economics pursued its course, the more egregious its mistakes; so it had to be discarded root and branch. Its central component, according to Ayres, was the theory of capital and savings, which regards the growth of industrial capital as being dependent upon the accumulation of money funds, and which therefore views the institutions of capitalism, through which financial power is exercised, as the source of economic progress. In fact, Ayres maintained, the economic level of any community is determined by its technology, not by the money it saves. It is not necessary to save before investment occurs; consumption and investment can increase together. Real capital does not result from either labor or abstinence, but from invention and discovery, science and technology.

Ayres's second major criticism of orthodoxy was that the theory of distribution was erroneous. He denied that land, labor, capital, and entrepreneurship were the factors of production, rejected the theory of their productivity, and poured contempt upon the notion that they were paid what they contributed to output and that the distribution of income was therefore morally right. Marginal productivity analysis, Ayres maintained, was a normative justification of the status quo, not a description of the operation of the economy. In actuality, the real factors of production are essential skills, social conditions, the state of knowledge and of the industrial arts, and the availability of essential equipment. The distribution of income is determined by the institutional system of power relationships which allocates high incomes to property owners and low incomes to workers.

Third, Ayres objected to the orthodox theory of human nature, which assumed that individuals have a structure of wants that is independent of cultural conditioning, and maintained that the price system is a mechanism whereby individuals register the values they attach to their wants through the medium of the prices which they are willing to pay to satisfy them. If it is recognized, Ayres argued, that consumption is not the end of economic activity, but simply a phase in the continuum of production and consumption, and if it is seen that wants are not basic and unchangeable features of human nature, then it must be granted that the market does not register what is truly valuable, and that the price system is devoid of metaphysical significance. The assumptions and conclusions of price theory are therefore invalid.

Finally, Ayres objected to the importance given to the market mechanism and the theory of its equilibrium. Orthodox theorists examine hypothetical markets of their own creation, mathematical fantasies that have no relation to the real world. The idea of static equilibrium, so ardently pursued by orthodox theory, is a survival of the eighteenth-century idea of a beneficent natural order in which all parts of society and the universe are in harmonious balance. Equilibrium analysis is a normative attempt to show that pure competition results in an optimal state, neglecting the harsh vicissitudes of the economic struggle and the continuous process of economic evolution that results from technological change. In actuality, resources are allocated by technological forces and the institutional system, not by the market, and the appearance of automaticity of the economy derives from the stability of the operation of custom and habit, not from the equilibrating action of prices.

Ayres's alternative

The second part of Ayres's system is the institutionalist economic theory that he developed as an alternative to the orthodox analysis. His theory is based upon a distinction between institutions and technology—the Veblenian antithesis. Institutions are habitual patterns of action and belief, legitimized by myths, superstitions, and legends, and inculcated through ceremonial rituals and observances. They establish the position of individuals in the societal scheme and nurture the conviction within them that the status quo should be maintained. Technology is a dynamic force which alters ways of making a living, disrupts habitual patterns of behavior, and introduces rationality and scientific criteria of judgment in place of superstition and tradition. Technological change has been responsible for economic development and the achievements of industrial society, and has shaped all aspects of our culture. Institutions, in contrast, incorporating and sanctifying traditional behavior and status relationships, are static and resistant to change. Consequently, they discourage and proscribe technological innovation in an effort to prevent its destruction of existing social arrangements. In most cultures, most of the time, institutions have won the struggle over technology, but in Western society they have been unable to stem the tide of technological change.

Industrial revolution; theory of value

Ayres's theory of why the industrial revolution first occurred in the West is one of his best-known contributions. The Romans, he observed, brought with them thousands of years of accumulated Mediterranean technology when they invaded Europe, disrupted the existing institutional structure, and then took their alien institutions with them when they departed. The result was that the West was given a technological base, and it was also rendered relatively free from encrusted and inflexible institutions. Ayres believed that technology develops through the combination in new ways of existing ideas, instruments, and machinery. If institutions are not restrictive, therefore, the existence of a technological base inevitably results in technological development, because the dissemination and juxtaposition of artifacts and ideas encourages their combination in new ways. All the right ingredients for this process were provided by the growth of towns, for they were free of feudal traditions, and supported a worldwide system of trade that stimulated cultural cross-fertilization. Printing, gunpowder, the astrolabe, a system of accounting, and other innovations were introduced and developed, and the industrial revolution was assured.

The effect of this revolution, Ayres argued, was to weaken and modify our basic institutions. The functioning of the family, for example, has become less authoritarian and is based increasingly upon efficient teamwork. Business enterprise has been transformed by increasingly sophisticated technology, which has thrown into prominence those individuals who are capable of using it. Government is also increasingly subject to the development of administrative techniques along technological lines, and the disappearance of positions of rank and power that are not based upon technological competence. The institution of private property has undergone a progressive transformation since feudal times, with an increased emphasis on chattel property rather than land, and with the growth of the large corporation resulting in a definition of property as ownership of a share of a mass of undifferentiated assets.

Ayres also developed a theory of economic value which is correlative with the Veblenian antithesis. His theory of value was necessary for his system, because he believed that institutions and technology were fundamentally different, that institutions were bad and that technology was good, and he needed to provide a rationalization for those opinions. There are, he maintained, two fundamentally different sets of values. One set derives from the institutional aspects of life and supports the existing structure of status relationships. That set is based on superstitions and fantasies, and is deleterious to social and economic progress, and is consequently false. The other set derives from technological operations. That set is based upon objectively efficacious life-sustaining processes, and is consequently objectively true. Unlike the culturally relative institutional values, the technological values are the same for all cultures and all times, because the tool-using operations from which they are derived are the same regardless of the institutional structure of the society in which they are used. Ayres concluded that the institutional values are impediments to progress and therefore bad, and that the technological values encourage it and are therefore good.

Policy

The third part of Ayres's thought was his policy proposals. Since orthodox theory was wrong, Ayres believed, the laissez-faire policy based upon it was wrong and even wicked. If we could shake off our bondage to the orthodox ideas, the full potentiality of modern technology could be realized through the creation, by government intervention, of a rational economic organization which would permit an enormous expansion of output and an equitable distribution of it. Ayres maintained that government regulation and planning were necessary because of the complexity of the modern economy, and because the market is not a self-regulating system. He did not believe, however, that socialism was desirable, or even that reliance on private property and the profit motive should be abandoned. His views about economic planning were not derived from Marx or the socialist tradition, he asserted, but from the instrumentalist philosophy of John Dewey and the doctrine of institutionalism.

Nevertheless, Ayres's policy proposals are not based upon his institutionalist economics, since that body of theory and speculation does not furnish any propositions about the interrelationships between economic variables. It has nothing to say, for example, about the relation between floating exchange rates and domestic inflation, about whether or not peak load pricing stimulates investment, or the incidence of the corporate income tax. For details on the operation of the modern economy and ways to correct its problems, Ayres therefore turned to Keynes, advocating policies that were part of the liberal climate of opinion during the 1930s —public works in time of recession, the progressive income tax, deficit financing, social security, and unemployment compensation. Disregarding the static character of Keynes's analysis and its concern with equilibrium values, Ayres put his seal of approval upon it: "Macroeconomics is Veblenian," he declared. Through the rejection of Say's law, according to Ayres, the entire logic of the Keynesian revolution was a rejection of the notion that money and real capital are the same thing, and was therefore a denial of the validity of the institutions of capitalism.

Ayres was an underconsumptionist. He claimed to have been the first to incorporate underconsumptionism into institutionalist theory, which is perfectly true, because other institutionalists did not subscribe to that doctrine, and Ayres himself adopted it from Keynes. Ayres believed that underconsumption generates depressions at home, and that the inadequacy of domestic markets leads to a competitive struggle to find export markets, which leads to wars abroad. Underconsumption, he argued, results from inadequate mass purchasing power and from excessive saving by the wealthy, who increase productive facilities without commensurately adding to the demand for output. The basic cause of those conditions is the inequality of the distribution of income, and therefore the solution to the problem is the redistribution of income. Ayres's favorite proposal for accomplishing this objective was to use high and sharply progressive taxation of income and estates in order to reduce the incomes and therefore the excessive savings of the wealthy, and to channel the tax revenues to the poor. For many years he proposed a guaranteed minimum income for the latter purpose. Then in 1952, in order to implement that idea, antedating Friedman's and Theobald's work on the subject by several years, he suggested a policy to which his right of priority has never been recognized. The revenues raised by the progressive income tax, he argued, should be spent in part through a negative income tax. This would provide a minimum guaranteed income and thus ensure that consumer effective demand is adequate to absorb the output of a fully employed economy.

Evaluation of Ayres's work

Many criticisms can be made of Ayres's work. His critique of orthodoxy concentrates upon a narrow core of outdated neoclassical theory, neglecting the enormous range and diversity of modern economic inquiry. His condemnation of price theory was made in reference to its eighteenth-century origins, and disregards its usefulness as an economic tool. His distinction between institutions and technology is untenable because many institutions both sustain life and civilization and contribute to technological and economic development. His doctrine of underconsumption is incompatible with the form of the long-run consumption function, and inadequate as an explanation of many short-run economic fluctuations. It must also be recognized that Ayres's thought has not grown in the hands of his followers. For the master to establish a school, he must offer a core of seminal ideas that are detachable from his presence and personal aura, and are capable of development and application. Ayres's theory, however, is fundamentally a closed system. By rejecting the entire body of price theory and orthodox analysis, his brand of institutionalism was cut off from the vast range of modern problem-solving techniques and therefore rendered incapable of dealing with economic problems. His followers intone the litany of the Veblenian antithesis, but they have little more to say.

Nevertheless, Ayres was right to observe that many orthodox theoreticians are excessively abstract. He was right to criticize the intrusions of normative ideas into economic theory. He was right to argue that institutions, technology, and the wider cultural setting of economic behavior must be considered in an account of economic life. Ayres was also right in his basic motivation, which was to foster the creation of a just and humane social order, in which ceremonially sanctioned mores and the dead hand of tradition no longer have the power to support the habits of mind and behavior that stultify economic and cultural progress. In his quest for this ideal, Ayres led his students to entertain a vision of a world in which rationality and compassion replace the dark forces of superstition and selfishness, and thereby made his contribution toward achieving a more reasonable society.

DONALD A. WALKER
Professor of Economics
Indiana University of Pennsylvania