

The Three Faces of John Elliott: His Contribution to Political Economy

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Abstract: John Elliott, late Professor of Economics at the University of Southern California, appears to some researchers as an institutionalist, to others as a Marxist, and to still others as a Post-Keynesian. But such labels are unable to capture the nuances of a complex and driven personality. John Elliott was all of these and none of them. He viewed the economy as a system of power and worried that the power that permeates through the economy has profound social, moral, and economic consequences that neoclassical theory chooses to ignore. An appreciation for his unique contribution to political economy requires a holistic examination of his life and writings. To do otherwise would be to only see part of the picture, just as the individual heterodox schools see only a part of the whole problem. To combat this, Elliott believed required nothing less than a unified heterodoxy.

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I. Introduction

In a classic article in the history of economic thought, John Elliott (1988) analyzes John Locke and pronounces that he has three faces but one common vision. For John Locke, conservatives, liberals and radicals all can see something for themselves in his writings. So too can

Marxists, Institutionalists, and Post-Keynesians see elements of their analysis in Elliott's writings. Elliott views exploitation as important and discusses alienation as a common theme similar to Marxian analysis. He emphasized the importance of institutions and the historical, cultural and social milieu in analyzing a society just as institutionalists do. He was concerned about how differing expectations and path dependency can shape economic outcomes in a manner similar to that used by Post-Keynesians. In this way, each of these schools might rightly claim them as one of their own but that would be to examine Elliott as the mere sum of his parts when he is so much more than that.

Similarly, universities recognize three ways a professor can contribute to society: first with teaching; second, with university service; and third, with research. As such, we can think of a professor as having three faces, each one associated with their contributions to society. We usually examine these in isolation. The student only sees the first, the surrounding community usually only knows about the second and, the university, for all of its lip service, rewards professors primarily for the third. It is ironic that while teaching and service are downplayed at research universities with respect to promotion, it is not through their body of research that most professors achieve a certain degree of immortality. Research is, first and foremost, something transient, conceived and recognized in the moment. It is often on a question of limited interest to the general body of scholars and only a narrow group of specialists may ever read it. Yet, it is also the primary vehicle with which we can evaluate scholars. We might wish to ask why this should be the case and not teaching, which would be the method that the general public likely believes to be the primary mission of professors. Ironically, it is the transient nature of research that is the most compelling reason for its use as an evaluative measurement, for its effects are

instantaneous, obvious and can be somewhat objective measured, while service and teaching have lingering effects, obfuscated among other confounding influences, and are more subjectively analyzed. However, to truly understand a professor and his or her legacy, one needs to examine all three of his or her influences and not focus exclusively on his or her written words.

Another issue is which written words should be used to evaluate a person's contribution. In many cases, the only sources that we have are published ones. This is a good start but not the best when attempting to understand the intent of an author. The principal issue is that when one gets to the publication stage many individuals have had their commentary on the product. At times the material may even undergo such vast revision in the hands of an editor that the original intent is more difficult to discern. Editorial constraints such as the type of readership and the length of the article can make it so that the end result is not as comprehensive a vision as the original author had undertaken. Additions may be made in the name of comprehensiveness that are well known by the author but were initially rejected as not being central to the argument. In addition, controversial arguments may be watered down to please the readership of the journal. Thus a published article represents more than simply the contribution of the author but also reflects the visions of the reviewers and the editor. At the same time unfinished work often lacks polish and may be replete with errors that would be vetted during the editorial process. In the case of John Elliott, we have copies of his penultimate drafts, the ones that actually were sent off for external review. It is from these copies that the following analysis occurs. It is possible that these drafts are similar, if not identical to, the final product. However, they represent a purer form that is closer to the original author than published works would be. As such, with few exceptions, the texts

quoted are from these drafts as opposed to published research. Those exceptions are exclusively the result of a lack of primary documentation and are not because of a research agenda driven to define Elliott in a particular bent.

To provide an example of how the finished product can change from the initial submission, we can look at one work Professor Elliott co-authored with Gary Dymksi of UC Riverside entitled "Capitalism and the Democratic Economy." There are numerous differences between the penultimate draft and the final manuscript that was set for publication. The originally submitted version contains a more broad-based indictment of efficiency as a criterion for establishing the primacy of the capitalist system and showcases that the focus on efficiency not only has profound implications for democratic capitalism but also for neoclassical theory but the final product downplays the second aspect in favor of the first. Efficiency as a criterion is said to not be subordinate to other goals but neoclassical analysis is not to blame. Yet Professor Elliott's original paper contains an additional point: Efficiency is a *sine qua non* not only of capitalism but also for neoclassical theory. Indeed, neoclassical theory serves almost as an apologist for modern capitalism.

This essay attempts to demonstrate how teaching, research, and university service form a triangular lens through which we can examine the political economy of John Elliott, late Professor of Economics at the University of Southern California. His value in teaching can be measured in no small part by the influence he had on his students. A large number became heterodox economists and this legacy is a testament to his desire to see economics become a holistic science. But it is not his ideas presented in articles and books that captivated and enchanted a legion of future scholars. Instead it was his style of teaching that breathed life into

old masters. Professor Elliott was a soft-spoken man but when he spoke, his words were magical. Instead of simply quoting directly from great works, he urged an examination of them with an emphasis on the historical context and social milieu of the author. He looked at predecessors and antecedents of individuals to help determine where ideas came from and how they impacted future society. He often felt and conveyed to his students how authors spoke on several different levels. First, there was the message that he or she was trying to convey. Second, there was the message he or she did convey. Finally, there was the message that understood by future readers of him or her. Each could be entirely different. For example, a man like John Maynard Keynes in attempting to overturn the neoclassical system actually ended up having his work reinterpreted by John Hicks into Paul Samuelson's "Keynesian-neoclassical synthesis". However, there was a fundamental incompatibility between the static view of the world seen through neoclassical economics and Keynesianism's dynamic system. These misperceptions and surrounding inability for synthesized economic theory to explain changes seen in the 1970s would lead to a belief that Keynesianism was at fault. This indictment was completely unfair and was predicated on a long-standing distrust of Keynesianism among a group of economists who had been working to displace this alternative perspective from its insertion into orthodoxy.¹ However, the efforts of these

¹ This tension is not unlike that seen in Physics between the vision of the world as seen by Quantum Mechanics that seems to govern subatomic particles and that perspective gained from the Theory of Relativity that works on large objects. "God does not play dice with the universe" proclaims Einstein but Heisenberg's Uncertainty Principle says that it does. It seems ironic that neoclassical economics, which has been labeled as 'social physics' by Philip Mirowski, has chosen,

economists would cause a whole generation of scholars to move in the direction of abandoning Keynes. Only through efforts of post-Keynesians and neo-Keynesians might we be able to find and breathe new life into Keynes through a re-examination of his work.

John Elliott would also use personal stories to convey points. One of his favorites was his description from when he was a young starving student struggling to make ends meet with a family to support. In this story he demonstrated effectively how individuals were subordinated to the work process through a variety of cultural and socioeconomic constraints. He worked in a bottle factory for one of the major soft drink manufacturers that, at the time, was non-unionized. He was working on an assembly line, taking finished bottles and placing them into cartons for their eventual transport to market. However, he was not the most productive fellow and he was not the most gifted with hand-eye coordination, so on several occasions the bottles would fall off the line and break. His supervisor, unable to appreciate the difficulties and inherent cultural contradictions of the alienation of the worker from the work process due to the expanded use of technology, insisted that he work faster and not allow any additional bottles to be broken. At this, John Elliott turned to his supervisor and proceeded to take a bottle from the line and drop it deliberately on the floor. Thus ended his future with the company. When he went home to tell about the blow he had struck for worker's rights, his wife demonstrated a better grasp of the realities of economics than the future USC economics professor by asking, "But John, how will we pay the rent?" The next day, John went to take a job at a rival soft drink bottler doing packing of bottles but luckily that job was

like Einstein did with Quantum Mechanics, to ignore or attempt to refute any challenge to its foundational principles.

unionized and the line was sufficiently slow so he could complete the task with a minimum of bottle-breaking interruption.

Professor Elliott lectured not with notes but with the knowledge he had of his subject, which was so extensive and deeply entrenched that he could instantly turn to a section of a masterwork of economics and recite it seemingly from memory. He consistently challenged his students to dig deeper into the material at hand and synthesize various tracks from different scholars to see how an idea took form and changed through the centuries to meet each age's needs. Indeed, his instructional devotion was the principal reason for an endowed chair that bears his name, which was given to USC during Elliott's lifetime by a former student.

Elliott respected the opinions of students and never belittled them. His classes were filled with students whose opinions ranged from fascist to Marxist and everything in between. Yet throughout all of it, Elliott was able to maintain a balance where everyone's opinions were valued and all felt welcome. He did this by constantly exposing us to a variety of perspectives and showcasing the benefits and drawbacks of each. In discussing Socrates, the Scholastics, Smith, Ricardo, Marx, Marshall, or Keynes, you felt Elliott's sympathy for each perspective. By analyzing each scholar within the particular historical, social and culture milieu of the times, he brought to life the rationale for each perspective. It was not that Elliott necessarily believed that we should agree with the viewpoints of these authors but we did have to understand them and why they had those perspectives.

He was so good at bringing these individuals to life that on some days, you would really believe that he was a diehard advocate of classical economics as conceived by Smith and on other days, he seemed a devoted

Marxist. To those who had a particular outlook on economics, he could be a Marxist, an Institutionalist, a Classical Economist, a Keynesian, a Malthusian, or a Post-Keynesian. Indeed, he was all of these and none of these. Elliott believed firmly that economics was not a discipline with one solution for all times and circumstances. Instead, it was a social science that needed to take into account the social circumstances within which it was grounded. For Elliott, political economy and *not* economics devoid of social context was the order of the day.

Professor Elliott always emphasized the links between politics and economics and taught that the two could never be completely divorced from one another. This holistic approach with which he approached his field carried over into his university service. He created the Program in Political Economy and Public Policy, bringing together faculty and courses from the Departments of Economics and Political Science and the School of International Relations at USC to create an interdisciplinary Ph.D. program that would be a role model for similar programs in other universities. He was the Director of the Program from its very inception and it was clear to everyone concerned that it was a labor of love.

He knew that to make a successful program required having someone with organizational and personal skills who would share his vision and manage to shape it into a concrete reality. To that end, he hired a former student of his to be the person who would run the program on a day-to-day basis: Dr. Farideh Motamedi. If Elliott was the heart and mind of the program, Motamedi, as the Associate Director and the person who looked after the students in the program, was its lifeblood and its soul. While he worked to attract the finest students from each of the departments with his excellence in teaching, she worked to secure funding for them and

recruiting outstanding new students while watching over their progress through the program. With her advice and supervision of the day-to-day activities, Professor Elliott was free to concentrate on his teaching and his research. The two of them made a team that ensured the interdisciplinary doctoral program was consistently considered a superior program of study than those offered by any of the individual departments, with a greater percentage of its graduates being placed in academic positions. Admitting approximately seven to ten students each year, students in the program consistently won a greater number of university and national awards than those in its parent departments and despite a lack of guaranteed resources accorded to the sponsoring department's students, students in the program were consistently awarded university fellowships and departmental research and teaching assistantships. Elliott's ability to keep feuding departments together is exemplified by the over twenty years of leadership he showed in building up the PEPP program. Unfortunately, this achievement would not follow him long after his death. Within a few years of his untimely departure from this earth, the program was cannibalized by competing interests in the respective departments and dismantled. Yet with his students flourishing in academic positions around the country, his legacy as an instructor should continue through them for some time to come.

Professor Elliott's skill in bridging diverse faculty interests is exemplified by his election to the office of President of the Faculty Senate and its predecessor, the University Senate, for two terms. This was quite an accomplishment since to be elected twice requires that an individual is able to not only show respect for divergent opinions but also to be able to bring together individuals with disparate viewpoints and get them to come to a consensus. With this ability, during his tenure

Professor Elliott was able to strengthen the body and make it a powerful force for university governance.

Elliott's contributions go far beyond his tenure as the head of the faculty. In 1972, the University of Southern California produced a faculty handbook based largely on Elliott's efforts to ensure that the rights and responsibilities of faculty were consistently applied and known. Up until that point, "There was no single, organized, reliable, readily available booklet of official information about the faculty and its environment" (McBath 1992: 16). The creation of this handbook was a Herculean task not only owing to the required assemblage of a vast array of documents into one coherent package but also because many of the original documents were conflicting or had unforeseen issues that either were no longer applicable or now required interpretation in new ways. The result was a renewed dialogue between the administration and the faculty that solidified faculty governance in the university. Prior to that point, university administrators had the upper hand in being able to interpret clauses as they saw fit but with the birth of the faculty handbook and a realization that there needed to be consistently applied principles, the dynamics changed to one of a balancing of power between the realm of the faculty and that of the administration.

In the 1970s and 1980s, Elliott also led the countermovement to a push to eliminate tenure. However, instead of working to defend the *status quo*, Elliott incorporated the legitimate objections to a system of lifetime job security into a definition that would protect the essential characteristic of tenure: allowing the free expression of ideas by faculty members. These safeguards that were put into place included a requirement for prior notification of possible sanctions against the faculty member and the ability to rebut specific allayed charges in a form of an academic trial by

one's peers as opposed to a unilateral decision undertaken by management (McBath 1992: 17-20). These activities speak to a man concerned with process as well as outcome, to a man who embodies the principles of the professorate but understands the needs of administration. McBath (1992: 24) quotes Doyce Nunis Jr., a faculty member in the History Department of USC, "John has been the soul of the Senate, its conscience and intellect. Through his many years of work, he has helped mold the Senate into a major institution. . . . His calm in a difficult situation was like an oasis in the desert. His rational mind was a marvel to behold. Above all, John was deeply committed to the principles of academic freedom and responsibility; these were inseparable in his outlook."

Elliott also attempted to ensure the preservation of representative democracy in student governance, interceding on one occasion to prevent an internecine conflict that had the potential for setting back the role of student representation on the advisory board that oversaw the Political Economy program. When a group of students came to complain about how their student representatives were not representing their views on the advisory board, Elliott had the existing student representatives brought in to a discussion of their failures to adequately represent the interests of their fellow students. However, instead of having the representatives stand down and cause a major friction within the program, he had them continue in their positions and allowed them to save face and return to the board as student representatives, instead of advocating for their own personal interests. Throughout all of this, he remained a soft-spoken and well-liked man of few words but with each word spoken conveying great meaning.

It is with this background that we can examine his scholarly work, for it helps us understand why Professor

Elliott chose the various subjects that he did and how his insights into the works were formed. With John Elliott, the history of economic thought was not a dead field but a vibrant one that was reinvented every time a scholar reexamined a work through the eyes of his or her age. Books spoke to him in a contemporary language even when they were hundreds of years old. That he was a great scholar is shown by the ranking USC held in the area of History of Economic Thought. Although he was the only scholar working in the area at the university, at the height of his career USC was ranked number nine in the country in the sub-discipline, the only time that the university reached a top ten ranking within an economic sub-discipline. No other individual scholar in the Economics Department at USC had such an impact in his or her area of specialty, even with the Department counting among its professors the likes of Richard Day and Richard Easterlin. Indeed, at the time of his death, John Elliott was considered by many of his peers to be one of the top five historians of economic thought in the world.

We can evaluate a person's work using two different methods. First, and most obvious, we can examine the works themselves. However, a second method, little used in modern parlance, would be an evaluation of the subjects on which the person chose to work. Certainly, given the limited time and energy that an individual can devote to a topic, the choice of topic can rival the analysis in the article in importance. Certainly this should be especially true when evaluating someone whose principal contribution is one of synthesis and not of discovery. Elliott is not a theoretician nor is he an empiricist. Instead, he belongs to a third tradition of scholar, one that has been given short shrift in recent years: the interpreter/synthesizer. His work consisted of putting "old wine in new caskets" in interpreting the works of the past in light of present needs, with an eye to

the promise of the future. He also was able to command a great knowledge of a vast number of works to demonstrate how ideas changed over time and how to relate contemporary issues to those that were of concern to past writers. Indeed, his greatest contributions lie in re-examining old works for how they may be relevant in the modern era and how pieces that have been long overlooked in a classic work showcase that modern scholars have misinterpreted them for their own ends. His research was specifically concerned with two prominent questions: the first was one of power and the second was of the interrelationship between capitalism, socialism, and economic progress, not from an efficiency criterion but from a moral and ethical perspective.

II. THE ECONOMY OF A SYSTEM OF POWER

Much of his work centered on the notion of the economy being a system of power. He would return to this concept in several papers throughout his lifetime. In “Adam Smith’s Conceptualization of Power, Markets, and Politics” written in 1999, he looked at the writings of the creator of economics to demonstrate that, for Adam Smith, power was an inextricable part of economics. According to Elliott, Smith can be used to criticize neoclassical economics in two ways. First there is an extrinsic criticism that can be leveled because:

the assumption of perfect competition envisions an economic world in which each individual provides such a small proportion of the total supply of or demand for outputs and inputs that it exerts no appreciable impact on or power over any other individual competitor, aggregate demand or supply, or to the broader social or political environment. Hence, power is conceived as external to or beyond the scope of . . .

economics. By contrast, Smith’s argumentarium incorporates, indeed features, causes and consequences of the pursuit and exercise of social power by individuals, organizations, classes, and governments.... (page 44)

However, there is also an intrinsic criticism that can be dispatched against modern neoclassical economics that it manifests a “logical or internal flaw. Market exchange and power, Smith believed, are interdependent, not separate topics.... [H]e believed that market relationships are both spontaneous and conceptual, that is, that they *presuppose a just social order, including therein systems of public law and policy which foster fair dealing in market exchange.*” (page 45, emphasis added). Since power could not be separated from market exchange, Elliott argues that Smith did not have a “timeless” theory but one that was bound by the social relations and realities of the time. He would later state in “Adam Smith’s Modes of Social Organization”, that “Adam Smith, especially in his more practical or empirical moments, development and presented his arguments contextually, that is, in the context of his views of power, social change, and modes of social organization.” (page 12). Indeed, it is only when we view Smith’s argument in this context, Elliott would argue, that we can discuss the invisible hand concept properly.

Elliott also made a major impact on the study of Marx. In his “Alienation, Freedom, and Economic Organization: Marx Rejected, Embraced, and Ignored”, Elliott challenged the interpretation of Edwin Dolan and other modern scholars that, for Marx, alienation is peculiar to private property under capitalism. Under that interpretation, Marx’s analysis of alienation is circumspect because it does not account for the fact of alienation under the old Soviet system but Elliott points out that under the Soviet system, control of the means of

production was still in the hands of a small group of citizens and not in the hands of the workers. Indeed, once again, to Elliott, the problem is one of power, not the type of economic relations, for the concentration of control in the hands of a few leaders of the Communist Party belies Marx's discourse on the "withering of the State". In some ways, this analysis suggests that Marx presages the institutionalist issue of the separation of control from ownership. Although the ownership of the means of production rested with the state and though the members of the proletariat were theoretically the owners through the state, the control of the concerns lay with the Communist Party, which was independent of the Proletariat:

Marxian socialism would be characterized by the (social) ownership and control of the means of production by the working class (and effective citizen control over selection of political leaders, determination of social goals, and formulation of economic plans) – vague though this conception may be – and not simply by "socialized ownership," certainly not merely government ownership (page 3).

Alienation is not merely characteristic of Marxian socialism but, for Marx, is a fundamental part of the first stage of communism, which retains "in every respect, economically, morally and intellectually, the ... birthmarks of the [capitalist] society from whose womb it did emerge." (Marx in *Critique of the Gotha Program* 1875 as quoted by Elliott (page 7)). Thus Elliott showcases the development of communism as having an evolutionary characteristic and highlights that the systemic differences between the various systems may not be as great as it first might seem. The key is that all of the world's politico-economic systems cannot be

divorced from their power relations and it is this distribution of power, not mere ownership, which lies at the crux of the problem of economic relations.

In "Economic Transition as a Crisis of Vision", a manuscript co-authored with John Peters and Stephen Cullenberg, Elliott once again looks at how modern economic theory misunderstands contemporary reality in that it strips out from classical economic theory all of the social and political implications that run through it. General equilibrium theory in its Arrow-Debreu formulation is seen as an ahistorical, ainstitutional static mechanism by which equilibrium instantly is created. This is in sharp contrast to the gradual tendencies towards equilibrium seen in classical (including Marxian) economics as well as Keynesian and institutional economics. In this heterodox tradition, equilibrium is shaped by the institutions, historical realities, and power structures that pervade every politico-economic system. Thus a reliance on neoclassicism, if that theory is inaccurate, will cause deep social rifts and will result in a process that does not solve the problem it purports to solve. Indeed, as pointed out by Peter, Elliott and Cullenberg, shock therapy shocks without providing therapy for these sick economies:

While the classicals acknowledged and discussed the issues of power, the creative and dynamic role of markets, the exploration of profit opportunities, history, and institutions, all of these issues are assumed away, or at best given minimal importance in neoclassical general equilibrium theory. And because it is an Arrow-Debreu general equilibrium vision of the world that underpins shock therapy on a theoretical level, it is little wonder why mainstream Western economists were often ill-equipped to offer useful advice to policymakers confronting transition in

their own economies. . . . The failures of shock therapy demonstrate the need for a better economics (page 29-30)

Indeed, for Elliott, neoclassical economics is an experiment gone awry. In trying to “prove” classical theory, it has stripped it of its intellectual underpinnings. Much of classical theory appears uncertain in its prescription to a mathematically logical mind precisely because it takes into consideration history, institutions and power. As such there are few universal precepts but rather universal tendencies. Modern economic theory strips us of the tendencies by assuming away time, thus allowing for immediate convergence to an equilibrium that the classicals saw always and forever as a goal of markets as opposed to a result. Institutions, power dynamics and history, which serve to shape equilibrium in classical thought because subsumed and are generally thought to be impediments to properly functioning markets. Worries about income distribution and their role in society have no bearing in neoclassical visions. Indeed, disparities in income and initial endowments create opportunities for wealth creation but the converse that such disparities also wreck havoc with the social order are not addressed by neoclassical commentary.

This concept is visited in a book review that Elliott (1994) wrote for History of Political Economy on the book “Ricardian Politics.” In that context, Elliott notes that both David Ricardo and James Mill examined the crucial question of voting rights among various economic classes. While one of the primary concerns among earlier political economists was one in which the various economic sectors of society would class with one another (a refrain still heard in the public choice school of political economy), David Ricardo argued that workers, capitalists and landlords shared a common

interest in maintaining capitalist society. However, he argued that the non-working poor should be kept from the franchise because of their inherent antagonism towards those who had wealth. As Elliott puts it:

By skillful use of hitherto neglected primary source materials, Milgate and Stimson have recovered a richer and more authentic view of David Ricardo, enhanced our understanding of relationships between political and economic history and institutional change in early nineteenth-century Great Britain, deepened our insights into the intellectual history of political economy and provided additional argumentation and evidence for systematic evaluation of the uneasy relationship between democracy and market capitalism (page 518).

Lest someone think that this is mere reporting as opposed to analysis, this contrasts with Elliott’s 1982 review of *Social Darwinism: Science and Myth in Anglo-American Social Thought* by Robert Bannister in which he states that:

One may—like the present reviewer (possibly afflicted by the residual effects of a youthful overdose of the ‘myth’ of social Darwinism) resist the thrust and some of the conclusions of the author while enjoying the story, admiring the painstaking care with which evidence is marshaled, and applauding the skill with which the arguments are presented” (pages 134-135).

It is clear from the above that the analysis in the former work is consistent with the opinions of Elliott while those of the later work are not. Yet, it is equally clear that

Elliott respected and admired the work of those whose opinions were diametrically opposed to his.

III. Moral and Ethical Progress Under Capitalism and Socialism

For Elliott, a second important question was how to inject morality and ethics in a capitalist and socialist economy. This is one of the reasons that Elliott takes both capitalism and socialism to task in “Alienation, Freedom, and Economic Organization: Marx Rejected, Embraced, and Ignored” when he discussed the fundamental tension between Marx’s desire for democratic participation in the work process and the resultant alienation from the work process experienced by workers under Soviet-style state capitalism.

Similarly, Elliott argues that neoclassical economics has forgotten its roots in the work of a moral philosopher whose major contribution at the time of his death was not thought to be *The Wealth of Nations* but *The Theory of Moral Sentiments*. For Smith, as well as Elliott, morality cannot be divorced from economics. Although it is competition that allows us to transact business without worrying about the baser instincts of others (indeed, it is the appeal to their baser instincts that allows capitalism to work), it is only within a context of socially derived norms of behavior that capitalism can work.

Similarly, for Elliott, one does not check one’s rights at the door of the factory. It is not that we sell our labor nor ourselves for a wage, it is that we sell our labor-power. In Elliott’s work with Barry S. Clark entitled, “Efficiency and Collective Action: The Contribution of Richard Henry Tawney,” this point is made most clear. The transactions costs approach emphasized in Coase’s “The Theory of the Firm” and followed through by subsequent economists is based upon a fundamental misperception of the nature of property rights; that being

the mistaken belief that “the nature of the production process is . . . independent of the distribution of ownership of productive property (page 3).”

The radical critique emphasizes that *contra* Coase and the neoclassical economists, efficiency and profitability are not always the same thing. Instead, disparate power in the workplace may improve profitability at the expense of efficiency. Thus if the workers owned the process, there would be less incentive for them to work inefficiently but with owners of capital receiving the benefits from the work process (i.e., owning it), it is necessary for those owners to maintain control over it through the use of managerial personnel and large-scale oversight. These mechanisms reinforce and engender racial, ethnic, and gender-based discrimination because of an inability to separate workers based on ability and cause skill-mismatching and increase hierarchical inefficiencies. Why don’t owners of capital simply dispense with this if it is not profitable? Well, it is profitable. Indeed, radical economists agree that the marginal revenue contribution of an extra bit of managerial control is made just equal to the marginal cost in capitalist firms. However, because the work effort is not divorced from production, worker resentment can cause a lowering of productivity when such controls are in place and this would not occur in a more democratic worker-owned and controlled system. Thus, Samuelson’s 1957 argument as quoted by Elliott that “it makes no difference if capital hires labor or the other way around” is not only misleading but wrong.

This fundamental disagreement comes from a difference in definition of efficiency. For radicals, cost-minimization is not the goal; input-minimization is:

Although hierarchical control may succeed in minimizing per unit costs through extracting more work effort and energy from productive

employees, it actually results in a net increase in labor input by imposing additional supervisory personnel and by preventing the adoption of more efficient technologies. Thus, while hierarchy may be compatible with the cost-minimizing efficiency which is enforced by the market, it simultaneously may violate a broader notion of social efficiency which seeks to minimize the number of labor hours devoted to the production of any particular product (page 5)

In addition, there is the problem of whether or not the nature of ownership alters labor productivity. Elliott and Clark argue that Tawney extends this debate in several dimensions. First, there is the issue of efficiency itself. To Tawney, efficiency cannot be divorced from its social context. Therefore, if the gains from increased productivity accrue to the owners of the corporations and are not shared with the workers, the workers face a dilemma. They lose their jobs during bad times but are not rewarded during good times. Thus the additional effort that they expend is limited. As Elliott and Clark put it:

allocative efficiency and justice are inextricably interwoven. Because any particular "efficient" resource allocation and composition of output cannot be conceptually identified apart from an associated distributive pattern of wealth, class, and power, and because any given resource allocation may serve to reinforce that distributive pattern, many Pareto-efficient solutions may be rejected as socially unjust. If a particular resource allocation, based on a highly unequal pattern of resources in ownership stimulates a reduction in efficiency (as, for example, when blatant inequalities so aggravate widespread views of

social justice as to cause greater shirking by workers), "efficiency" may be said to beget inefficiency (page 8).

Elliott and Clark argue that, for Tawney, efficiency cannot be the sole criterion for organizing society because to do so would require autocratic government since, by definition, it is more efficient to have a small number decide on matters of policy than a large number. However, to do so would override the central goals of liberty and democracy. Similarly, when there is great inequality in society, it causes social instability. For Elliott and Clark, the central problem that Tawney associates with neoclassical economics is that it is ignorant of time, society and history. Thus, what is efficient at one time may become highly inefficient in another. To use another example, if I have a lot of chocolate cake, it may be allocatively efficient for me to consume it and given my individual desires, it may be rational to consume such cake. However, it will lower my life expectancy. At some future point, it now becomes clear that I must diet and so I do so. However, if instead of the chocolate cake, I had eaten fruit (which I love nearly as much), I would be able to forgo dieting later and be much healthier for it. Similarly, if in the future, I make a discovery that increases my wealth, I may be much more interested in taking good care of myself but the damage already inflicted may be too great to overcome. At the same time, eating large quantities of chocolate cake probably reduces the probability that I will make such a discovery (I spend my money on chocolate cake instead of on furthering my other goals such as making such a discovery). In that case, the eating of chocolate cake as economically efficient behavior is simply a foregone conclusion.

An additional problem is that social cost for neoclassical economics is merely the summation of

individual desires at the time; therefore, it is impossible to reconcile this with the needs of a dynamic society. Society is not the mere summation of individual utilities, it is more than that. Since individual beliefs are created via society, society shapes the utilities that individuals receive. Since property owners lack any meaningful context for their increase in wealth and since they become increasingly concerned not with advancement of progress but with maintenance of position, they lose their *raison d'être*. At the same time, workers who are not receiving benefits corresponding to their work effort will not realize their potentials and their ability to perform work will become degraded. Simply put, property rights cannot be separated from the societal context and “[o]nly when arbitrary power and functionless property have been abolished will society be genuinely efficient in both formulating and fulfilling social purpose” (page 13). Thus, one of the principal moral and ethical problems of capitalism is that it treats individuals as machines when they are not. This has a profound impact on society in both the long and short term but also on economic output and efficiency in the long run.

IV. Towards a Unified Heterodoxy?

Professor Elliott saw two major defects in neoclassical theory and sought solutions outside of it. First, the absence of power in neoclassical analysis belies a normative view of how relations *ought* to be instead of how they actually are. In this respect, neoclassical economics suffers from the very defect that it often levels at other perspectives. Second, that this power has dimensions that have moral and ethical implications. Within this realm, he found partial solutions within the economic schools of institutionalism, post-Keyesianism and Marxism. However, these three faces of John Elliott still speak with one common vision, just as the three

faces of John Elliott come together as a blend and extension in what Elliott termed “Liberal Locke.” The answer to this paradox is found in one of Elliott’s articles: “Institutionalism as an Approach to Political Economy.”

Elliott believed the principal reason for the entrenchment of orthodoxy was that it was dealing with the heterodoxy as individual radical “anti-economists” instead of as a unified vision of an alternative economics. To the extent orthodoxy acknowledged these challenges, it sought to incorporate them through minor changes in its own approach.

Nowhere is this complaint about the heterodoxy more evident than in his “Institutionalism as an Approach to Political Economy” wherein Elliott argues that institutionalism has three major defects: first, it is insufficiently institutional in its practice as compared to the vision of its founder, Thorstein Veblin. Instead of examining the broad range of institutional arrangements in the full context of differing times, societies, and cultures, institutionalism remains, for the most part, an American tradition concerned with the unique aspects of the American system of capitalism much as the German Historical School principally concerned itself with the history under which Germany found itself.² This parochial nature belies the fact that institutionalism has, in theory, much in common with the sweeping analysis offered by Schumpeter or Marx, both of whom offered much more in the form of institutional analysis when compared with most institutionalists. Thus, institutionalism suffers from a classic defect in that its members, instead of fulfilling the promise of their heritage, spend too much time making invidious distinctions between themselves and neoclassicals when they themselves have failed to develop the general

² One major notable exception to this is found in the work of Geoffrey Hodgson, Research Professor at the University of Hertfordshire.

evolutionary institutional theories that they claim to be seeking.

For Elliott, the solution to this dilemma is a grand union of heterodoxy. For the most part, the heterodoxy, far from being at odds with one another, are united on key principles involving the need to analyze everything in terms of institutions, power, and class as well as from a normative perspective of improving the human condition. Indeed, the principal differences between Marxists, Institutionalists, Neo-Keynesians, and Social Economists lies in their emphasis on various constituent parts of this holistic approach as opposed to the neoclassical perspective that one can simply assume them away. It is made even more difficult because when confronted with evidence that is contrary to its predictions, neoclassicism simply chooses to ignore it a la Einstein's "If the facts don't fit the theory, change the facts." Numerous inconsistencies, ignorance of underlying conditions and mathematical errors plague orthodoxy (Keen 2001; Mirowski 1992; Kaldor 1972; Robinson 1972) but without a unified front, the heterodoxy is ignored and marginalized. As Elliott put it:

If economists in the institutionalist tradition were to establish closer connecting linkages with Schumpeter, Marxian studies, and such contemporary economists as Michael Kalecki, [Joan] Robinson, and Piero Sraffa, the resulting interaction could well approach what a resurrected Veblen might call a Grand Union of dissenting perspectives; and one wonders whether *that* might not be more than the economics profession, if not Western society, could reasonably absorb....

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Major Douglas in the Witness Box: Sparse Reflections on the Heresies of Social Credit

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Abstract

Major Douglas and his proposals of social credit belong to a family of phantasms that inhabit recondite library stacks. They owe oblivion to the verdict of history and to their own nature—often, an uncouth admixture of unerring hunches and fallacious patching; yet, because of the recrudescence of ills they sought to redress, such cranks and their bags of reforms have been capable, in the course of two generations, to resist an overwhelming tide of triumphant forecast on the part of capitalist apology, and haunt posterity in the midst of unsolved issues, such as that of money, and the just ways to effect its distribution in a cohesive community. The purpose of the present study is to canvass the monetary tenets of Social Credit, as they were formulated by Douglas and his following before WWII, with a view to inquiring anew into the nature of the medium of exchange, and the fashion in which it shapes economic life.