

Recontextualizing Clarence Ayres's *The Theory of Economic Progress* through archival evidence

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Our paper seeks to recontextualize Clarence Ayres's *The Theory of Economic Progress* through a reconsideration of the criticisms of the book and Ayres's personal standpoint on it. We believe that the negative reception of the book conveys the mainstream perspective. Additionally, our paper stresses some of Ayres's thoughts on Western society that were not included in *The Theory of Economic Progress*, but were introduced by him through correspondence around the same time his famous book was written and disseminated. We conclude that Ayres was more radical than his writings reveal.

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Introduction

Contemporary notions of institutional change are, in no small part, directly associated with Clarence Ayres's writings. Ayres was a central figure in the field of institutional economics in the 20th century. He focused on the theoretical development of the institutional approach following a Deweyan–Veblenian tradition, through which he introduced his perspective of institutional change. During the first half of the 20th century, Ayres witnessed the rise of a new mainstream in economics, and strongly criticized its core element—the price system. Ayres even went beyond and proposed an

alternative approach—naturally relying on Deweyan–Veblenian institutionalism. The most famous systematization of Ayres’s approach is *The Theory of Economic Progress*, which was published in 1944. In this paper, we contextualize this book in the evolution of ideas in economics and through Clarence Ayres’s archives. In order to study the content of Ayres’s archives, we studied his correspondence with Kenneth Boulding, William Breit, Virginia Buckner, John Dewey, Joseph Dorfman, Douglas Dowd, John Maurice Clark, Morris Copland, Seba Eldridge, Carter Goodrich, Wendell Gordon, Walton Hamilton, Frank Knight, Clem Linneberg, Nelson Peach, Charner Perry, and Carey Thompson, mainly during the 1930s and 1940s. This period covers the time when Ayres was formulating and writing the ideas contained in *The Theory of Economic Progress* and its repercussions. This paper is composed of three sections. The first section introduces mainstream reactions to Ayres’s view of price theory and analyzes Ayres’s formative years to emphasize his background in economics. The next section describes Ayres’s perspective on *The Theory of Economic Progress* which suggests that Ayres was more radical than he is usually classified. We conclude with our comments in the final section.

The Price System and Ayres’s formative years

There are two reviews of Ayres’s *The Theory of Economic Progress* that summaries, as far as we understand, criticisms of the book. The reviews are Abba Lerner (1945), published by the *American Economic Review*, and A. B. Wolfie (1944), published by the *Political Science Quarterly*. Their criticism relied on Ayres’s skepticism about the usability of the price system. In Wolfie’s (1944: 622) perspective, one of the issues that Ayres (1944) would like to address is that “[e]conomists have done and are doing nothing constructive, because they are obsessed with analysis of the

price system". Wolfie also argued that "[...] it is practically inconceivable that any complex economy, 'capitalistic' or collectivist, can operate without money and prices [...]" (Wolfie 1944: 622). Lerner (1945) also criticizes Ayres's aversion to price theory. According to Lerner, (1945: 160): "Professor Ayres believes that price theory is essentially nothing but an instrument for the partisan justification of the capitalist form of society and does not like the extreme preoccupation of current economics with the individual". Lerner further stressed that economists would not like the book. Lerner (1945) opined that *The Theory of Economic Progress* would amuse readers without knowledge in economics as Ayres's book is riddled with "misinterpretations and the mistakes that abound in his [Ayres's] presentation of current economic theory" (Lerner, 1945: 160).

Wolfie's (1944) and Lerner's (1945) reviews can be summed up into two major criticisms: (1) Ayres's perspective on price theory and (2) his lack of knowledge in economics. Ayres's view of price theory drew criticism since his Ph.D. dissertation (Ayres, 1918). In Ayres's archives, one can find letters between him and his friend and intellectual opponent, Frank Knight. During the 1930s, Ayres and Knight debated the former's perspective on price theory. In a letter to Ayres, Knight affirmed that Ayres's perspective of rejecting price theory sounded absolutely indefensible (Knight to Ayres, 8 January 1935, Clarence Ayres Papers, Box 3F290). It seems that Knight did not agree with Ayres's proposal for economics, taking another path than the rising mainstream of that time. Knight intellectually disagreed with Ayres, which is different than Wolfie's criticism. Ayres did not propose an economic system without price, but an economic perspective without focus on the price system. In a letter to Knight, Ayres has clarified: "[a]ll price studies of specific situations, whether for business or by governmental purposes, (i.e., control by businessmen or by governmental agencies) must necessarily

be made by supply-and-demand analysis. In that sense, I agree unreservedly that the ‘old fashioned’ categories are useful. The question always is: useful for what?” (Ayres to Knight, 15 January 1935, Clarence Ayres Papers, Box 3F290).¹ In a letter to Walton Hamilton, Ayres highlighted that price theory was mistaken in including social significance in its mechanism. For Ayres, considering social significance made traditional economics focus, almost exclusively, on the organization of the society through the price system (Ayres to Walton Hamilton, 30 April 1940, Clarence Ayres Papers, Box 3F288).² Clearly, Ayres criticized the methodological and theoretical aspects of price theory, but not the existence of prices.

It is important to consider that despite two chapters of *The Theory of Economic Progress* being dedicated to price theory, it is not the theme of the book. Hence, repercussions of Ayres’s (1944) criticism of price analysis are peculiar. One explanation is that Ayres offered a “new way of thinking about economic problems” (Ayres 1944) by rejecting price theory. However, Thorstein Veblen, who significantly influenced Ayres, similarly critiqued economists who studied with price analysis but the reaction to Veblen’s writings was not the same. An explanation lies in the evolution of economics. Ayres, in his time, dealt with the rise of a new mainstream in economics. It began to emerge in the 1930s and was founded based on the price theory derived from rational

¹ Additionally, a debate between Ayres and Knight took place in the pages of the *International Journal of Ethics* during the 1930s (Ayres 1935a and 1935b; Knight 1935). However, despite being taken into consideration, this debate is not focused on price theory.

² This is the main reason why Ayres (1944) proposes a new place for technology in economic analysis. In Ayres’s words: “[s]ubstitute technology for the price system as the genesis of value. Value must be derived from an impersonal mechanism, and technology is. The technological continuum from which by his instrumental logic Dewey has derived his theory of logical validity (truth) is also the genesis of moral validity (value). This, I am convinced at last, is how the positive theory must be derived – from a technological theory of value alternative to the effort of classical political economy to derive value from the pricing process. Thus, the theory of value itself rivets economic analysis to production (rather than exchange and distribution) and so leads to all the rest” (Ayres to Walton Hamilton, 30 April 1940, Clarence Ayres Papers, Box 3F288).

economic decisions (Backhouse 2004). Hence, Ayres (1944) criticizes the core of the new emerging mainstream and mainstreamers, and sympathizers of the mainstream, such as Wolfie and Lerner, reacted. Another criticism from mainstreamers is Ayres's supposed lack of knowledge of economics; Lerner (1945) expresses this as a miscomprehension of economics. This is due to the association of Ayres with philosophy rather than economics. We therefore analyze Ayres's formative years.

Ayres received a B.A. in philosophy in 1912 and an M.A. in economics in 1914, from Brown University, and a Ph.D. from the University of Chicago (see Rutherford 2001 and Rutherford 2011: 28 and Ayres's Record of Work, The University of Chicago Office of the Recorder Archives, 1917). Ayres went to Chicago to study under Robert Hoxie, who had been a student of Veblen, in the Department of Political Economy. There is no information on who was Ayres's adviser was after Hoxie's suicide in Ayres's records at the University of Chicago. It shows that he got his Ph.D. in philosophy **and economics** (Ayres's Record of Work, The University of Chicago Office of the Recorder Archives, 1917). James Hayden Tufts, a follower of John Dewey, signed Ayers's Ph.D. We cannot assume that Tufts was Ayres's adviser as he could have signed Ayres's Ph.D. as the head of the Department of Philosophy. Ayres thus had a strong educational background in philosophy **and economics**. Hence, the association of Ayres with only philosophy by mainstreamers can be considered as a rhetoric to steer Ayres away from economics. Of course, a mainstreamer would point out miscomprehensions in institutionalists' understanding of economics and vice versa because their bodies of knowledge are completely different.

Behind the scenes of *The Theory of Economic Progress*: a more radical Clarence Ayres

The Theory of Economic Progress is a great reference for institutional debate on instrumentalism, ceremonialism, and institutional change. Additionally, the Veblenian-Ayresian wing of institutional economics is critical to the role of institutions in the social structure. Archival evidence reinforces such perspectives of Ayres (1944) and Veblenian-Ayresian institutionalism. For instance, in a letter to John Dewey, Ayres emphasized that in criticizing the role of institutions, he was not advocating for a society without institutions. In Ayres's words: "[w]e can't get away from institutions in living any more than we can't get away from words and connotations in thinking; but we can realize that an institution is not only not a good thing in itself; in itself it is a bad thing from which we are bound to try perpetually to redeem ourselves." For Ayres, a world without institutions would be like people without habits (Ayres to Dewey, 29 January 1930, Clarence Ayres Papers, Box 3F286). In this section we highlight that Ayres went further in his criticism of institutions and social structure in his correspondence than it can be identified in *The Theory of Economic Progress*.

In Ayres's archives, we find strong criticism toward capitalist institutions. In a letter to Dewey, Ayres emphasized that he had been working on a simple statement of the economic consequences of *The Theory of Economic Progress*; he called it "After Capitalism." Ayres recognized how controversial his statement would be; he wrote: "[that] may be too hot for Little, Brown – and maybe for the present Regents of the University of Texas. But my feeling is that this is the season for plain speaking" (Ayres to John Dewey, 19 August 1944, Clarence Ayres Papers, Box 3F286). Moreover, in a letter to Walton Hamilton before the publication of *The Theory of Economic Progress*, Ayres stressed that "[...] the end of the era of capitalism is definable in terms of certain

peculiar changes in the conception of property”. He also explained, in the same letter, that the concept of property was key to the capitalist system and a change in the concept of property would represent a change in the “whole philosophy of institutions” of capitalism. For Ayres: “[b]efore capitalism men sought wealth and got it. But when they had got it they were always in imminent danger of losing it (in all sorts of ways clear up to outright confiscation); and the danger was proportional with the degree to which their mode of life, becoming immoderate, gave overt evidence of its possession” (Ayres to Walton Hamilton, 21 May 1934, Clarence Ayres Papers, Box 3F288).

In the same letter to Hamilton, Ayres also mentioned that the veneration for property rested upon a unique state of peace. This state of peace relied on military and political power. According to Ayres, technological revolution changed the gravity center of this logic by a revolution in the art of war and “the professional cut-throat to the competent technician”. For him, “[t]he rise of nationalism by virtue of the mechanical arts of war, which made fighting an affair of massive equipment, has become a banality; but what seems to have been overlooked has been the true role of the burgher [...]. Eventually we shall be forced to realize that national sovereignty has been an incident of the burgherizing of modern society. The technical revolution transferred power—actual military power—from a cut-throat class to the mechanically efficient citizenry, and the nation is merely that figment of which they were citizens; a sort of projection, in terms of institutional make-believe, of the physical reality of burgher might” (Ayres to Walton Hamilton, 21 May 1934, Clarence Ayres Papers, Box 3F288).

Given the criticism of capitalist institutions and the transformative feature that Ayres saw in technology, a possible interpretation of institutional change as addressed in *The Theory of Economic Progress* is that for Ayres, technology was the key to a new institutional arrangement that would not rely on capitalism. Technology would break

the capitalist institutional arrangement which would change the power system and the notion of property. It is important to note that Ayres was not sympathetic to either communism or socialism. This radical perspective is reinforced by the fact that, just after receiving his Veblen-Commons Awards in 1969, Ayres wrote to Joseph Dorfman stating, “[t]here is an alternative to the orthodoxies of Capitalism and Communism. That alternative—whether conceived in terms of ‘the instinct of workmanship’ or ‘the economics of cooperation’—is what we are seeking to clarify and attain” (Ayres to Dorfman, no date but the content suggests that the letter was written after Ayres’s Veblen-Common Award, Clarence Ayres Papers, Box 3F286).

If Ayres had theorized an economic system different from capitalism and communism or how to break with capitalist institutions, why did he not write about it? Our hypothesis is that this is due to McCarthyism. At the beginning of 1951, Richard Christopher and Joseph Dorfman exchanged letters; the former wrote that Ayres was being investigated under accusations of advocating socialism (Christopher to Dorfman, 24 March 1951, Joseph Dorfman Papers, Box 3). Dorfman responded that he “[...] had thought that the matter had been settled several years ago [...]”. He also acclaimed Ayres’s “intellectual integrity and stimulating influence” (Dorfman to Christopher, 28 March 1951, Joseph Dorfman Papers, Box 3). According to Dorfman’s letter, Ayres had problems with association to communism before the 1950s. Hence, if Ayres built the perspective of an economic system different from capitalism or theorized how technology would change the social structure for things other than capitalism, a dark time may have played its tricks. Ayres may have focused his attention on other issues or have weakened his stance that technology may change institutions and their vested interests—without involvement of capitalist institutions.

Final Comments

Mainstreamers backed the criticism of *The Theory of Economic Progress* because of Ayres's perspective on price theory. Such criticism is usually aimed at Ayres's notion of economics. Through archival evidence, however, we highlight his education in economics; additionally, archival evidence suggests that Ayres's thoughts on technology and institutions' relationship went far beyond a theory of institutional change. It is suggested that Ayres saw technology as a key element to abandon capitalist institutions. This would change the Western power structure and the notion of property. McCarthyism may have pushed Ayres away from this perspective.

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