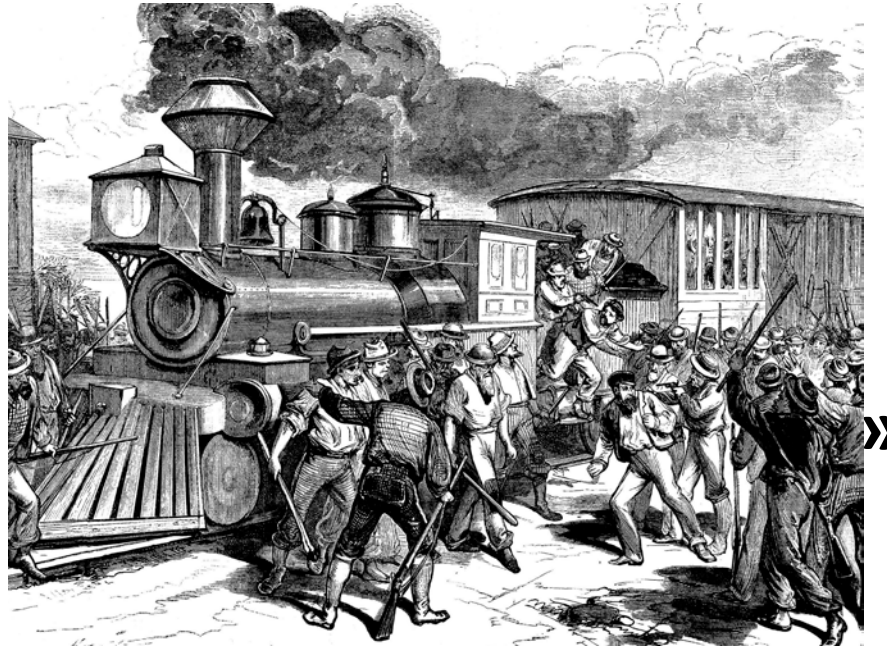


ASSA 2021 Virtual Annual Meeting January 5, 2021

B1, N3

« Inequalities in the Progressive Era »



Richard T. Ely and the « labor problem »

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“The first reaction that I get is sheer ignorance. [...] When I speak about ignorance, I mean ignorance of the history of economic thought and especially of American economic thought. Institutional economics began in this country in 1885.” shouts Ely angrily at Homan's presentation of institutional economics at the 1931 round table of the American Economic Association annual meeting. “So far as I am concerned, I want to say that I am an institutional economist or I am nothing.” (Kiekhofer *et al.*, 114, 116)

Beyond this quarrel over the historical birth of North American institutionalism, Ely's reaction is significant of the 1880s movement that gave parallel birth to the American Economic Association and to labor economics as a subdiscipline, at the crossroads of five different quarrels: a political quarrel, a theoretical quarrel, a religious quarrel, a methodological quarrel, and a quarrel on the performative role of economic theory.

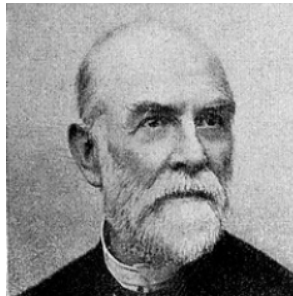
Outline

- A. **Richard T. Ely: some biographical milestones**
- B. **The labor problem from the 1880s to the *Progressive Era*:**
 - a theoretical quarrel
 - a religious quarrel
 - a methodological quarrel
 - a quarrel on the the necessity of the performative role of economic theory.
- C. **Conclusion**

A. Richard Theodore Ely (1854-1943)



- Richard T. Ely was born in 1854, at Ripley, New York, and spent his youth in Fredonia, New York.
- In 1872 he entered as a freshman at Dartmouth College, where he was suspended for participating in a student strike (Cranfill, 2)
- He then moved to Columbia College, where he stayed from 1873 to 1876 and won a three year fellowship for graduate study. He then decided to go to Germany to study philosophy, in order to discover « the real truth » (*ibid.*, 3).
- In 1877, he arrived in Hamburg, then went to Kiel before entering the University of Halle, and joining the University of Heidelberg to study economics under Karl Knies. In 1879 he was awarded his PhD, spent five months in Switzerland and returned at the University of Berlin, where he studied statistics under Adolf Wagner and Ernst Engel, then Director of the Royal Statistical Bureau.



After his return to the US, he tramped the streets of New York looking for a job, before being appointed at Johns Hopkins, where he wrote his first book, *French and German Socialism in Modern Times* (1883), and joined a group of “Young Rebels”, all of whom had studied in Germany: Henry Carter Adams, John Bates Clark, Edmund J. James, Simon N. Patten, Edwin Robert Anderson Seligman.



- Three years later, in 1886, Ely wrote ***The Labor Movement in America***, “the first proto-industrial relations book in America” (Kaufman, 2010, 78), where he proclaimed that he was fulfilling a mission and making a real contribution to human affairs (see *Ground Under Our Feet*).
- In April 1891, he launched and became the first Secretary of the **Christian Social Union**, an organization advocating the application of Christian principles to social problems.
- In 1885, Ely launched and took the lead role in **the American Economic Association**, modeled on the German *Verein für Sozialpolitik*, and was instrumental in writing its “**Statement of Principles**”, including points 1 and 3:
 - 1. We regard the state as an agency whose positive assistance is one of the indispensable conditions of human progress.
 - 3. We hold that the conflict of labor and capital has brought into prominence a vast number of social problems, whose solution requires the united efforts, each in its own sphere, of the church, of the state, and of science.
- Ely was secretary-treasurer of the AEA for seven years and president from 1899 to 1901, until his allies decided to weaken the association's commitment to statism so as to induce the liberal economists to join the organization – and Ely left the association

Ely was hired as the first full-time professor in economics by the **University of Wisconsin at Madison** in 1892, where he formed the new **School of Economics, Political Science, and History** .

In 1894, he was charged by the Board of Trustees of the University, after a letter addressed by the new Superintendent of Public Instruction of Wisconsin, Oliver Wells, to *the Nation* and the *New York Evening Post* under the title “The College Anarchist”.

The letter asserted that Ely furnished “a seeming moral justification of attack on life and property such as this country has already become too familiar with”, and believed “in strikes and boycotts, justifying and encouraging the one while practicing the other”.



After the trial, Ely stayed at the University of Wisconsin and brought one of his former students, **John R. Commons**, in 1904, launching with him one of the major center for the study of labor and industrial relations in the United States.

In 1925, he was appointed to Northwestern University, in Chicago, where he remained until his retirement in 1933.

B. The labor problem from the 1880s to the *Progressive Era*

- Rapid industrialization and massive immigration during the Gilded Age brought along a new social and political problem: the labor problem.
- The transformation of labor was extremely fast: In 1800, just 11% of laborers worked outside of agriculture, and by 1900, this percentage had climbed to 80%.
- **Two elements** have played a central role in raising awareness of this problem: statistics and social movements.
- **Statistics** played an essential role in this awareness: labor statistics, notably developed by Carroll Wright, then head of the first Bureau of Labor Statistics in the United States, the Massachusetts Bureau of Statistics of Labor.
- **Social movements** were twofold: national strikes, inaugurated by the 1877 Great Railroad Strike, established labor as a new political and social force; and trade unions, in charge of organizing the American labor movement. .
- Terence Powderly's "**Noble Order of the Knights of Labor**", founded in 1869, saw membership skyrocket in the early 1880s and engineered successful several railroad strikes in 1885.
- Early in his career, Ely stood up for the Knights and developed the thesis of an economic, social and political interest of trade unions in the movement for social reform.

- Ely's theoretical work on the concept of labor is essentially double-folded.
- 1. labor is a **specific concept** – and not a simple commodity or factor of production (and hence as a major tool of criticism of marginalist economics)
- 2. this new concept of labor is both a **central piece for the new institutional economic theory** and a key to new views on economic inequalities.
- These two characters enlighten four major conflicts and quarrels of the times:
- 1. a **theoretical quarrel** on the status of labor in economic theory
- 2. a **religious quarrel** spurred by the radical convictions of the Social Gospel movement
- 3. a **methodological quarrel** around Ely's « look and see » admonition
- 4. a **quarrel on the necessary performative role of economic theory** regarding the social control of inequalities.

1. a theoretical quarrel

- In his 1884 article criticizing classical economic theory, “**The Past and the Present of the Political Economy**” , Ely calls for a new political economy, where the lessons of the German Historical School were to replace the deductive methodology of the British classical school.
- Among other arguments, he insists upon the specificity of labor: not a mere commodity - with the subsequent criticism of a supply and demand concept of employment -, not a production factor similar to capital or land, but embodied in human beings.
- In *Ground Under Our Feet*, Ely draws up a ferocious portrait of the “**dry bones**” of standard American economics of the 1860s (Ely, 1938, 125).
- *The Labor Movement in America* draws upon Knies’ thesis to draw up a detailed historical analysis of the role of economic policy in the determination of wages and labor conditions in the United States.

The Labor Movement in America



"The labor movement treats of the struggle of the masses for existence, and this phrase is acquiring new meaning in our own own times. A marvellous war is now being waged in the heart of modern civilization. Millions are engaged in it. The welfare of humanity depended on its issue." (*The Labor Movement in America*, Preface, i)

The book denounces the following "fallacy":

"[T]he assumption that labor is a commodity just like other commodities, and the laborer a man with a commodity for sale just like other men who offer their wares to the public. [...] While those who sell other commodities are able to influence the price by a suitable regulation of production, so as to bring about a satisfactory relation between supply and demand, the purchaser of labor has in his own power to determine the price of this commodity and the other conditions of sale." (*ibid.*, 98-99)

Hence, in opposition to standard economists, Ely considers that **labor organizations are often a benefit to the economy because they balance what is otherwise a "one-sided determination of the price and other conditions of labor..."** [together with] the almost unlimited control of the employer over [...] his employees" (*ibid.*, 100).

The book was harshly attacked by mainstream economists: by Arthur Perry in his textbook, *Elements of Political Economy*, by Simon Newcomb in the columns of *The Nation* (see Barber 1987), by Henry Farnam in the *Political Science Quarterly*; but well received by Social Gospel authors, and, of course, by some of the Young Rebels, such as Taussig, Clark and Seligman.



Washington Gladden



2. a religious quarrel

- “The most influential lay leader of what came to be called the “**Social Gospel**” movement within Protestantism was the economist Richard T. Ely. By the late 19th century, he had become one of the best-known proponents of social Christianity in America and was quite literally a household name. » (Bateman & Kapstein, 1999, 250)
- Ely attended the first Social Gospel conferences, organized by **Washington Gladden** and **George Herron** during the 1880s, along with other Young Rebels - Simon Patten, John Bates Clark -, sociologists like Lester Ward, and his former student at Hopkins, Woodrow Wilson.
- In 1889, he **publishes *Social Reform and the Church***, a manifesto in favor of a Christian social reform in matter of labor legislation.
- The movement sought to relieve the conditions of the poor and working class by changing society: in Rothbard words, “Ely believed that he served God by transforming the social sciences and enacting progressive policies” (Rothbard 1989, 102).

SOCIAL REFORM AND THE CHURCH

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WITH
AN INTRODUCTION
BY
PROF. RICHARD T. ELY

NEW YORK: 46 EAST 14TH STREET
THOMAS Y. CROWELL & COMPANY
BOSTON: 100 PURCHASE STREET

1894.

- Together with Herron, he launched the **American Institute of Christian Sociology**, with John R. Commons, as its first Secretary-Treasurer, and organized both its newspaper, *The Kingdom*, and “Chautauqua-style” summer institutes to promote the Social Gospel (Bateman & Kapstein, 1999, 251).



- The movement was rapidly successful: within a few years, the laissez-faire line of some of the first social gospellers was abandoned, and, in 1908, most mainline Protestant churches adopted the **Social Creed of the Churches**, a document that committed them to support a "living wage" for all workers, the end of child labor, the end of seven-day work weeks, and a range of reforms in industrial relations" (*ibid.*, 255).

3. a methodological quarrel

- Ely's new political economy, based on the German Historical School approach, **dismisses deductive principles as "dogmatic extremes"** and argues in favor of an inductive **"look and see"** methodology which included **"induction, deduction, observation, experimentation, statistics, careful historical analyses, and any combination of those methods"**.
- " This entire change in the spirit of political economy is an event which gives occasion for rejoicing. In the first place, the historical method of pursuing political economy can lead to no doctrinaire extremes. Experience is the basis; and should an adherent of this school even believe in socialism as the ultimate form of society, he would advocate a slow approach to what he deemed the best organization of mankind. If experience showed him that the realization of his ideas was leading to harm, he would call for a halt. For he desires that advance should be made step by step and opportunity given for careful observation of the effects of a given course of action." (Ely, 1884, 64)
- The same admonition is clearly expressed in Statement 2 of the AEA:
- "We believe that political economy as a science is still in an early stage of its development. While we appreciate the work of former economists, we look, not so much to speculation as to the historical and statistical study of actual conditions of economic life for the satisfactory accomplishment of that development."

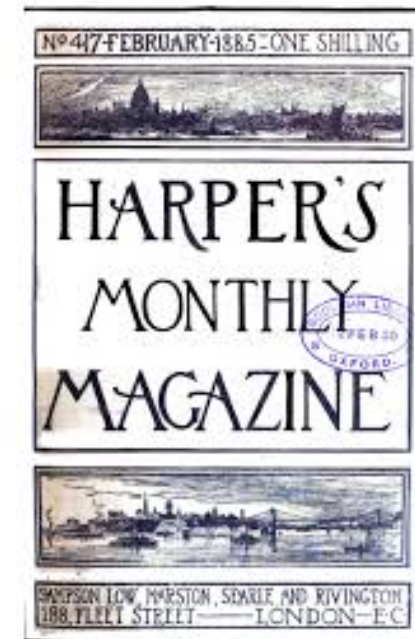
4. a quarrel on the necessity of the performative role of economic theory

Upon these basis, Ely permanently opposed laissez-faire theories and advocated in favor a strong involvement of the “Young Rebels” in the institutional and legal reform of the country.

Of particular interest to him, **German economists from the second Historical School** had provided theoretical support for Germany's 1880s pioneering programs on labor accidents, health, unemployment, and old age social insurance –programs which were regarded as opening a road to socialism in the United States, where laissez faire in matter of labor relations was the rule - evidenced by the fact the country did not even have a national child labor law, and will not until 1938. In his 1884 article, Ely mentioned this necessity for a normative involvement of economists, quoting **Hidebrand, Knies, Wagner, Roscher, and Engel, together with the writings of Emile de Laveleye, Cossa, T. E. Cliffe Leslie, or Sydney and Beatrice Webb.**

- **In the new field of labor economics, three examples** illustrate this new attitude:
- 1. the launching by Ely, in 1904, of the **American Bureau of Industrial Research**, established on the basis of private donations with the aim of writing at the University of Wisconsin an inductive, precise and detailed history of the American labor movement under the leadership of John R. Commons (see *A Documentary History of American Industrial Society*, 1910-1911; *History of labor in the United States*, 1918)) ; followed in 1906 by the American Association for Labor Legislation, created jointly by Ely and Commons.

2. the writing of **pamphlets** and **general public articles**: pamphlet on labor reform (see "A Programme for Labor Reform » (1890), or "Next Things in Social Reform » (1891)); numerous precise descriptions of both patronage and social solidarity experiments in publications for the general public (see his 1885 article in *Harper's Magazine*, "Pullman: A Social Study" on the Pullman patronage system).





3. At the University of Wisconsin, he formed, with some of his former students, an unofficial brain trust for Robert M. “Fighting Bob” La Follette Sr., progressive Governor (1901-1906) and Senator (1906-1925) of Wisconsin. This brain trust, helped legislators draft laws and served as experts for the government, working closely with the state administration, especially the Wisconsin Industrial Commission - what was named **the “Wisconsin Idea”** (McCarthy, 1912).

The initial idea of the Wisconsin experience was threefold – with the **global aim of a social control of inequalities**: 1. to **fight against monopolies**, trusts and high cost of living, according to the thesis Ely will develop in *Property and Contract in their Relations to the Distribution of Wealth* (1914); 2. to develop a state **system of income tax**; and 3. to develop a **reform program on labor rights**, inspired by German experiments.

Over the years, this brain trust succeeded in implementing progressive measures for government regulation in labor legislation, public utility regulation and reduction of inequalities: a workmen's compensation law, a minimum wage law, an industrial safety law, and laws regulating woman and child labor.

C. Conclusion

- **Richard T. Ely was right: institutional economics did begun in the United States with the launching of the AEA in 1885 – and he was thus the most prominent institutional economist of this early period.**
- His views on the labor problem contributed
 - - to establish the **sub disciplinary field of labor economics**
 - - to **enhance the role of statistics** as a rhetorical device in the analysis of labor relations
 - - to **change the nature of economic theory on the concept of labor**
 - - to construct a role of **economists as experts**, both within the academic world and outside.



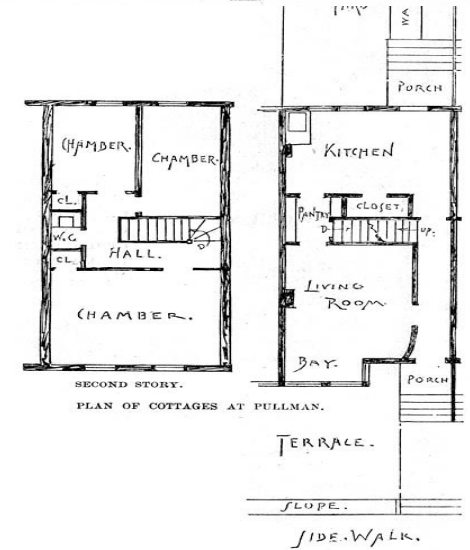
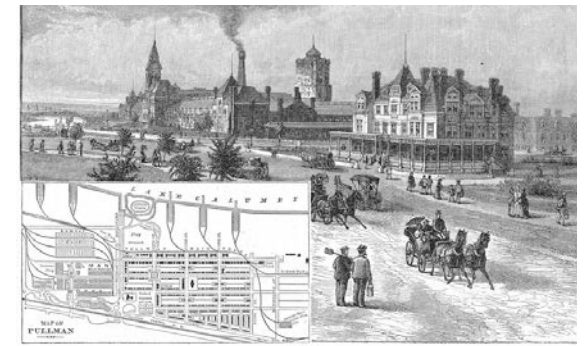
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