John R. Commons and Irving Fisher: Contrasting Methodologies but Allies in Policy Reform

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Abstract: The institutionalist economist John R. Commons of the University of Wisconsin and his contemporary, the neoclassical capital theorist, monetary economist and general equilibrium pioneer Irving Fisher of Yale University, had contrasting approaches to the methodology of economics. Nonetheless, despite their different theoretical approaches, Commons and Fisher had a long, close and fruitful collaboration in campaigning for reforms in public policy. This collaboration was expressed through the American Association for Labor Legislation (AALL) and through a series of organizations for monetary reform, which sought to replace the gold exchange standard with a mandate for price-level stabilization. The AALL was the leading research and advocacy organization promoting the "Wisconsin idea" Progressive agenda of policy reform at the national level. The AALL was not an exclusively institutionalist initiative but rather was made more effective by enlisting a group of non-institutional economists in support of Progressive ideas: early AALL leaders included not just Richard T. Ely and John R. Commons of the University of Wisconsin but also Henry Farnam and Irving Fisher of Yale. Fisher advanced an extensive agenda of policy reform, with a central role for universal, compulsory health insurance, in his presidential addresses to the AALL and the American Economic Association. In addition to Fisher's active participation with Commons in the AALL, the role of Commons in the price-level stabilization campaign is shown by his many appearances in Fisher's *Stable Money: A History of the Movement* (1934). The methodological differences between Commons and Fisher did not prevent their policy collaboration in the AALL and the stable money movement.

Introduction

John R. Commons and Irving Fisher, outstanding figures among American economists in the first half of the 20th Century, are remembered as exemplars of sharply competing methodological approaches to economists. At the University of Wisconsin, Commons took the lead in institutional economics (Commons 1924, 1931) and in the "Wisconsin idea" of Progressive regulatory and institutional reform (see Rutherford 1994, 2013, on Commons's central role in the institutionalist movement). In contrast, his contemporary Irving Fisher of Yale, championed neoclassical capital theory (Fisher 1906, 1907), the quantity theory of money and, from his 1891 dissertation *Mathematical Investigations in the Theory of Value and Prices* (in Fisher 1997, Vol. 1) through serving as founding president of the Econometric Society in the 1930s, mathematical economics (see Dimand 2019). Commons (1907a) and Fisher (1909b) clashed over Fisher's capital theory, with Commons denying that Fisher's definitions of capital and income, drawn from *a priori* neoclassical economic theory, matched how the concepts were understood and used in actual business practice. Yet this image of Commons and Fisher as opposed to each other on economic method and theory neglects the extensive common ground they found regarding economic policy and reform, where they had a long, active collaboration. The reformist role of economists in the Progressive era has received considerable attention (e. g. Moss 1996, Vallet, ed., 2020), not least for its darker eugenicist aspects (e. g. Leonard 2016), but accounts of the American economics discipline in that era have not revealed the space for collaboration on economic policy and social reform among economists who differed on methodology. While Irving Fisher's reformist enthusiasms (from low-protein diets and Prohibition of alcohol through reform of the calendar and world map) have often been remarked upon, he has not generally been thought of an outspoken Progressive ally of institutionalists in campaigning for universal health insurance and other forms of social insurance and regulation (e. g. Fisher 1917, 1919) nor, although Commons's support for monetary stabilization has been noted, his association with Fisher on that topic has not been widely recalled. In the late 20th and early 21st centuries, what is now the Original Institutional Economics has had little cooperation with the neoclassical economics that is now established as the mainstream, but in the Progressive era economists with theoretical stances as disparate as Commons and Fisher could work together on a wide range of issues. The collaboration between Commons and Fisher contrasted with the absence of any such common ground between Fisher and another institutional critic of his capital theory, Thorstein Veblen, even though Fisher and Veblen shared William Graham Sumner as a doctoral adviser (see Dimand 1998).

Commons, Fisher and the American Association for Labor Legislation

Apart from the stable money movement, the American Association for Labor Legislation was the main forum for the collaboration between Commons and Fisher. As John Dennis Chasse (1991, 800) stated, "Between 1910 and World War II, the AALL was *the* major influence on state and federal labor legislation. It organized the drive in the United States for unemployment compensation and compulsory health insurance." The story of the AALL has appropriately been told, notably by Chasse (1991, 1994) and David Moss (1996), as that of Commons, the Association's second secretary (from 1907, after Adna Weber of Columbia served for a year), and especially of his sometime coauthor (e. g. Commons and Andrews 1936) and former student John B. Andrews, who succeeded Commons as AALL secretary from 1910 until Andrews's death in January 1943, together with the first AALL president, Richard T. Ely, Commons's senior colleague at the University of Wisconsin, who recruited Commons. Chasse (1991, p. 815) saw the AALL's "place in the intellectual history of policy analysis" as embodying the "Commons-Andrews vision." But, despite the impression given by this literature[1], the success of the AALL depended on having a broader base in the economics profession than just Wisconsin institutionalists. Along with

[1] The only mention of Fisher in the text of Moss (1996), as distinct from the endnotes (where he appears as a recipient of letters), is that "Imagining in early 1916 what it would have been like to be secretary of the Civic Federation instead of the AALL, Andrews submitted to Irving Fisher, a strict prohibitionist, 'It would, I feel sure, have driven me to drink'" (Moss 1996, 131), without mentioning that, in addition to being a prohibitionist, Fisher was an economics professor and then the AALL president.

Ely, Commons and Andrews, other key figures, especially in the association's first fifteen years, were the AALL's second president and principal financial donor[2], Henry Walcott Farnam, the New Haven Railroad heir who Yale University's longtime secretary (his brother was treasurer), Henry Rogers Seager of Columbia, the AALL's third president, and Farnam's younger colleague Irving Fisher, the association's fifth president (see Farnam 1911, Fisher 1917). Farnam joined with Andrews to turn the AALL towards policy advocacy as well as its original mission of policy research, while Fisher took a leading role in the AALL's advocacy of enhanced social insurance, including compulsory health insurance. This promotion of compulsory health insurance fitted in with Fisher's campaign for a Federal Department of Health and action by government, the insurance industry and private groups to combat preventable diseases, a cause to which Fisher had been devoted since his own ordeal with tuberculosis (see Dimand 2013, 2023).

Farnam's Role

In the first decade and a half following the AALL's 1906 inaugural annual meeting, the association's early presidents often carried over policy analyses and proposals formulated before the AALL (as in Seager 1910, Farnam 1911, Fisher 1919) into American Economic Association presidential addresses (Farnam 1912, Commons 1918a, Fisher 1919, Seager 1923). Farnam's inherited wealth made him influential in both organizations, as in economics at Yale. He financed the creation of the *American Labor Legislation Review* when he was AALL president, the *American Economic Review* when he was AEA

[2] David Moss (1996, p. 6) reports that "Farnam, the son of a prosperous railroad builder, alone contributed several thousand dollars each year, helping to finance Andrews' salary and also that of the permanent assistant secretary, Irene Osgood. Osgood, like Andrews, had studied economics as a graduate student at Wisconsin, and the two were married in August 1910." Moss (1996, p. 190) reports that Farnam was the Association's "biggest contributor during the progressive period" and that supposed Morgan financing of the AALL was from J. P. Morgan's estranged daughter Ann Morgan who "managed to be a constant source of embarrassment to him" and made small, well-publicized contributions to those groups that he most detested. Her donations went to the Women's Trade Union League and the Socialist Party as well as the AALL.

president and the *Yale Review* when he was the university's secretary, paid for the construction of Fisher's hydraulic mechanism simulating general equilibrium (see Dimand 2019), and donated the salary for the initial Yale appointment of Arthur Twining Hadley, subsequently president of Yale and of the AEA. Farnam is little remembered in the history of economics because of his limited publication record, with his essay collection consisting mainly of presidential addresses he was obliged to give to annual meetings, including two to AALL (Farnam 1913)[3]. His only appearance in the AEA *Index of Economic Journals* is for his AEA presidential address. Yet Farnam, through his benefactions more than his writings, played a crucial role in creating the space in which Commons and Fisher transcended their methodological differences to collaborate on public policy. Farnam's role in financially supporting policy-related economic research and advocacy was comparable to the role thirty to forty years later of Alfred Cowles in funding econometrics and formal economic theory through the Econometric Society, *Econometrica* and the Cowles Commission. Before large-scale government or foundation funding of economic research, an individual donor could matter.

Economists in the Public Service: The Need for Social Insurance and Social Reform

In his AEA presidential address, after urging the profession to attend to maintenance of purchasing power, Fisher (1919) stressed that "The great field of social insurance of workingmen and especially the next step – Health Insurance – should also engage our attention. Here, likewise, we must steer clear of the bias of the employer, the trade union, the insurance company, or the medical profession" (Fisher 1997, Vol. 13, p. 17). Ever since his ordeal from 1898 to 1902 with tuberculosis (which had killed his father), Fisher had been concerned, one could even say obsessed, with improving longevity and fighting preventable diseases, whose cost he measured in his National Conservation Commission monograph on *National Vitality* (Fisher 1909a). He founded the Life Extension Institute, wrote a bestseller on rules for

[3] Some chapters of an unfinished work on social legislation appeared posthumously (Farnam 1938).

healthy living, worked for establishment of a Federal Department of Health and sought to interest insurance companies in promoting healthier behavior (Dimand 2023). He moved beyond these activities to campaign for compulsory health insurance, which the AALL had begun studying in 1912, with a model bill presented by the AALL in 1915 and campaigned for by Commons (Fisher 1917, Commons 1918b, Chasse 1994). Fisher (1917) devoted an AALL presidential address to "The Need for Health Insurance," describing it as "the next great step in social legislation in this country." In March 1917, just before American entry into World War I, Fisher (1917, p. 9) declared that "Germany showed the way in 1883 under the leadership of Bismarck … Her wonderful industrial progress since that time, her comparative freedom from poverty, reduction in the death rate, advancement in hygiene, and the physical preparedness of her soldiery, are presumably due, in considerable measure, to health insurance."

This emphasis on the German precedent with in keeping with the influence of the German historical school and the Verein fuer Sozialpolitik on the founders of the AALL, whose first three presidents, Ely, Farnam and Seager, had done their graduate work in economics in Germany (Moss 1996, p. 15). Fisher (1919) acknowledged that the AEA, another association cofounded by Ely, had "received from Germany the idea, close to the heart of every German economist, of making economics of service to 'the state.' But in the last two years the war's revelations have made us realize, to our horror, that 'the state' served by the German economists of today, was simply the Hohenzollern dynasty. We now know that German professors in general, from theologian to chemist, have prostituted their professional services to serve Germany's criminal purposes … America has a special opportunity, a special mission – to uphold humanitarian and democratic economics. The very fact that Germany once inspired us toward an economics in the service of the state should spur us now to avoid the nationalistic perversions of that idea which befell our German colleagues" (Fisher 1997, Vol. 13, pp. 7-8).

While thus emphatically dissociating himself from the German reformist influences on the founding of AEA and AALL, Fisher (1919) presented himself to the AEA as far from an abstract neoclassical theorist, remaining committed to a broad range of social insurance, including compulsory health insurance but extending even to consideration of a proposal by the Italian economist Rignano for "making the state co-heir of all bequests so that it will receive one-third of the estate on the first descent, two-thirds of the remainder on the second, and the residue on the third descent" (Fisher 1997, Vol. 13, pp. 11-12). Fisher (1919) also held that "The government, representing the public is, with all its faults, in a better position than the private capitalist to underwrite great industrial undertakings, both because its resources are greater and because the chances of gains and losses in many different directions would tend, more fully, to offset each other. Government underwriting of industry is thus in the last analysis simply a species of social insurance" (Fisher 1997, Vol. 13, p. 13). For all his theoretical differences with Commons and the Wisconsin institutionalists, Irving Fisher used his AEA presidential address to present a vision for social reform as sweeping as that of Commons or of any of their associates in the AALL.

The humanitarian impulses motivated the policy analysis of both Commons and Fisher and their social insurance and social reform advocacy was marred by racial and eugenicist elements and by support for limiting immigration from elsewhere than the British Isles and northwestern Europe (Commons 1907b, Fisher 1997, Vol. 13, pp. 160-207), as has been extensively documented (Aldrich 1975, Cot 2005, Dimand 2005, Leonard 2016).

Stable Money: A Price Level Target to Stabilize the Economy

Commons and Fisher collaborated through the AALL in promoting compulsory health insurance (e. g. Fisher 1917, Commons 1918b) until the campaign ended in 1920 with the rejection of the last version of the AALL's compulsory health insurance bill by a committee of the New York State Assembly (see Chasse 1994). But this was far from the end of their joint policy advocacy. Commons also took an active part through the 1920s and early 1930s in a succession of stable money groups that Irving Fisher established to lobby for his compensated dollar plan (which would vary the dollar price of gold to target the cost of a bundle of commodities) and other proposals to stabilize the price level rather than the exchange rate (see Commons 1925 and Whalen, ed., 2020 on Commons's advocacy of economic stabilization through a price level rule). Commons's participation in these efforts and Fisher's appreciation and invocation of Commons's contributions to the cause are reflected in the many citations of and quotations from Commons's stable money writings in Fisher's *Stable Money: A History of the Movement* (Fisher with Cohrssen 1934, citations on pp. 51, 63, 64, 105, 170-71, 240, 246, quotations on pp. 171, 177, 222, 248-49, 255, 258, 271-72). Praising Commons as "one of the veterans of the stabilization movement," Fisher (with Cohrssen 1934, pp. 63-64) traced Commons's involvement back to work in 1900 on index numbers to show the need for money of stable purchasing power through Congressional testimony on price level stabilization bills and articles in the late 1920s on Federal Reserve credit policies and the relation of farm prices to the value of gold[4]. Fisher urged President Franklin Roosevelt to appoint Commons to the Federal Reserve Board as one of the world's leading experts on money, a recommendation which, like so much of Fisher's advice to American presidents, was unsolicited and not acted upon (Dimand 2013).

Conclusion

John Rogers Commons, the University of Wisconsin institutionalist and progressive, and his contemporary Irving Fisher, the Yale general equilibrium pioneer, mathematical economist and neoclassical capital theorist, were at the forefront of dramatically different approaches to economic methodology. The contrast between their views of how to do economics has diverted attention their

[4] See also Fisher (1997, Vol. 14, pp. 55-56) for an exchange of telegrams between Commons and Fisher, initiated by Commons, on March 5, 1933, about urging FDR to suspend all gold payments and contracts, insure all bank deposits, reduce the gold content of the dollar by a third, make Federal Reserve and Treasury notes legal tender, lend $10 billion to business and agriculture, and continue a state of emergency until full employment or the 1926 price level had been restored or there was an international agreement on a new international monetary standard to stabilize price levels.

long collaboration on policy analysis and on advocacy of policy reform, both about health insurance and other forms of social insurance through the AALL and about stabilizing the economy by a price level mandate instead of a fixed price of gold, through such advocacy groups as the Stable Money League, the National Monetary Association and the Stable Money Association. Their collaboration is not just revealing about two individuals, however eminent, but an illustration of the common ground available, despite their disagreement over method and theory, to neoclassical and non-neoclassical American economists in the policy realm in the Progressive era. Examination of the collaboration between Commons, Andrews and Fisher in the AALL also reveals the role of Fisher's senior Yale colleague Henry Farnam in creating a space for such alliance and collaboration in policy analysis and advocacy in that era, a crucial role that has not been fully appreciated because Farnam's influence was through funding and organizational guidance rather than publication. Taking note of Fisher's alliance with Commons in the AALL and the stable money movement also alters Fisher's image as quixotic[5] and isolated in the economics profession in his reformist enthusiasms, as distinct from his scientific contributions. However isolated Fisher was from other American economists in campaigning for such causes as a low-protein diet, a new world map projection or a thirteen-month calendar, his advocacy of social insurance and stable money brought him into association with important groups of American economists, including ones like Commons who would, from Fisher's neoclassical perspective, seem all too heterodox about theory and method. Similarly, Commons, while remaining firm in his critique of neoclassical orthodoxy such as that of Fisher (e. g. Commons 1907a), had a decades-long collaboration on policy analysis and on advocacy of social insurance and stable money with economists as solidly orthodox as Farnam and Fisher.

[5] See the quotation from Fisher in the title of Dimand (2013): "Perhaps I'm a Don Quixote but I am trying to be a Paul Revere."

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