

## PROFESSOR PATTEN'S THEORY OF PROSPERITY.

Since the publication of his *Dynamic Economics*, Professor Patten has seemed open to the charge of turning his back on his chosen specialty to embroil himself with sociologists, psychologists, historians and other quarrelsome persons. He began his poaching in other preserves with the modest effort to wrest from sociologists the study of the origin, even, of society. His claim that in its origin as well as in its later development society is mainly economic called forth vigorous protest, notably from Professor Giddings, to whom the book under review is dedicated. But this was as nothing compared with the outcry caused by Professor Patten's next enterprise. In his *Theory of Social Forces* (1896) he proposed an explanation of the nature and laws of growth of the mental mechanism which caused psychologists at first to gasp and then to clamor against the daring invader. The discussion which ensued was eloquent not so much of what is, but of what is not, known of the working of the human mind. These ventures on Doctor Patten's part were, however, mere preliminaries. His greatest undertaking was the attempt to give a concrete illustration of the economic interpretation of history in his *Development of English Thought* (1899). This work, which is still fresh in the public mind, brought down upon him the condemnation of a body of students larger and more influential than the sociologists or the psychologists, the historians. He was accused of making up the history he professed to interpret. Some critics said that history, even such reputable history as that of England since the Conquest, is still too incomplete to admit of interpretation. Other, or even the same critics, declared that history, when accurately narrated, interprets itself and that it was preposterous for a person who did not claim to be an historian to attempt to instruct specialists in that subject as

[239]

to the real significance of the facts which they were so laboriously collecting. Still others objected that human motives in the past, as in the present, were complex and that no simple scheme of interpretation, whether economic, moral or religious, could serve any but a partisan end. They urged the danger that a writer who started out with a preconceived theory of historic causation would refuse to accept as facts any events not in harmony with it, and cited examples in point from Professor Patten's pages. Finally the old cry was raised that a nation's history is the biographies of its great men, and that greatness or genius is too miraculous in its origin and development to be "interpreted" according to any scheme.

Even sincere admirers of Professor Patten, who have followed these controversies, will be apt to welcome with relief the *Theory of Prosperity*, in which he so unequivocally returns to the domain of economics. But it would do scant justice to his intelligence to assume that the work of the last ten years represents the by-products of his restless and original mind, and that the last book can be understood if treated as the next in succession to his *Dynamic Economics*. The fact is far otherwise. Professor Patten is nothing if he is not persistent in following up a line of thought once entered upon. If he has seemed to turn aside from economics it is only because he felt that he had pushed his analysis as far as it could be pushed, with any profit, on the basis of the premises with which he started. His successive tilts with sociologists, psychologists and historians were undertaken in the conscious endeavor to enlarge the scope of economic speculation. Only when it is clearly perceived what he was driving at in these seemingly uneconomic excursions can the significance of his latest work be understood.

It is in no spirit of apology for Professor Patten's deviations from the straight and narrow path of academic specialization that this attempt is made to indicate the relation between his recent writings. As a distinguished inventor

has remarked, the progress of science and discovery is largely the result of the untiring pursuit of unlikely hypotheses. It follows that the world's debt to the few thinkers in each generation who have the temerity to look at things in a little different way from those around them is incalculable. An original thinker, such as Professor Patten is universally conceded to be, should be gladly welcomed in any field and requires no excuse for venturing where he pleases so long as his efforts are constructively directed. That his investigations rarely attain to finality is as little to be cherished against him as is the inventor's proverbial failure to turn his discoveries to commercial use.

In order to understand the unfolding of Professor Patten's ideas, it is necessary to go back of the *Dynamic Economics* and see its relation to earlier work. His first book, *The Premises of Political Economy*, was an attempt to recast the economics of Mill so that it would apply to American conditions. What those conditions were was impressed on the author's mind by some years of study in Germany, preceded and followed by life in rural Illinois. This experience taught him the importance of habits of consumption in shaping national life and character and at the same time led him to distrust the assumption that individuals know what is best for themselves and if left alone will secure it. Pursuing the same line of thought still further, he brought out later his monograph on *The Consumption of Wealth*, which concludes the first period in his development.

The *Economic Basis of Protection* is the first step in a somewhat different direction. He believed that free trade was good for England, but not for America, and that led him to inquire into the differences in environment and national traits that distinguished the two countries. From this concrete study he arrived at the conclusion that the weakness in English economics is that it makes no allowance for qualitative changes in men and goods. He attempted to correct this error in his *Dynamic Economics*, in which he represents

progress and change as normal phenomena and attempts to reduce them to law.

The third period in his thought began also with a concrete study, his *Interpretation of Ricardo*. He became convinced that local conditions not only determine what economic policies are desirable, but that they also shape men's ideas and even their modes of reasoning. To put the theory to the test he undertook to show that Ricardo was a believer in free trade because he argued from the point of view of a city capitalist, while Malthus was a protectionist because he argued like a farmer. The latter proposition was easier of proof than the former, but in both instances the attempt was crowned with a considerable degree of success.

The *Theory of Social Forces* and *The Development of English Thought* are products of this third period. If, as Professor Patten came to believe, even ideas, beliefs and modes of reasoning are changed by local conditions, the old associational psychology and the old utilitarian ethics are no longer adequate bases for economics. Inspired by this conviction he set about formulating new psychological principles in order to show how previously unobserved properties of mind act as social forces in shaping human progress. His own estimate of the value of this first attempt is frankly expressed in the introduction to *The Theory of Social Forces*. He there says: "I feel that I must make an apology for injecting so much psychologic discussion into this essay. To many readers this will seem foreign to the subject and may arouse prejudices which will interfere with a correct appreciation of the other facts. It should, however, be kept in mind that every social philosophy has, as its basis, some theory of psychology. The doctrines of Locke and Hume have proved a most admirable basis for the old social philosophy. They ignore, however, the elements upon which the social forces rest. A new social philosophy cannot pass beyond the inductive stage until these factors are recognized and a picture of mental activity constructed which empha-

sizes the elements neglected by the old philosophy. Even if the type of psychology which I present is faulty, it can at least serve as a provisional philosophy until psychologic research is far enough advanced to furnish a better basis."

The *Development of English Thought* is even more directly the outgrowth of his essay on Ricardo. In it he attempts to do for the whole English nation what the essay tried to do with reference to two individuals. Speaking of the undertaking, he says: "The theory presented is scarcely open to question, though some of its corollaries may not be evident. Survival is determined and progress created by a struggle for the requisites of which the supply is insufficient. These requisites are the goods for which men strive or the means by which they meet evils. A group of such definite objects, upon which the life and happiness of each race depend, always exists. The environment formed by this group of economic objects surrounding and supporting a given race, changes with the several objects on which the interests of the race are centered. With the new objects come new activities and new requisites for survival. To meet these new conditions, the motives, instincts and habits of the race are modified; new modes of thought are formed; and thus, by the modification of institutions, ideals and customs, all of the characteristics of the civilization are reconstructed. These changes take place in a regular order; the series repeats itself in each environment. In its amplification and illustration lies the economic interpretation of history."

Professor Patten had two reasons for selecting England for his larger experiment in "economic interpretation." In the first place, the comparative isolation in which English civilization has developed makes the problem of interpretation easier than it would be for either of the great continental nations. Secondly, English experience had supplied the basis for the three economic systems in which he was most interested; that of Ricardo, that of Marx, and, in a

more roundabout way, that of George. He hoped, through his profounder study, to show that the premises on which each of these writers based his conclusions in regard to the future of society were only of temporary validity.

It would take far too much space to attempt an estimate of *The Development of English Thought*. It is Professor Patten's own opinion that his method of interpretation answered fairly well until he came to Adam Smith. Here he admits it broke down, and it was his partial failure to portray Adam Smith satisfactorily that led him to formulate the leading distinction that appears in his *Theory of Prosperity*, that between "existing conditions" and "heredity" as determinants of income.

From this review of Professor Patten's writings it must be apparent that far from "turning his back" on economics, in recent years, he has been working away with direct reference to the needs of that science. His incursions into the field of sociology were not freebooting expeditions, but reasoned demands for a resurvey of a doubtful portion of the domain to which sociologists laid claim. His attempts to reconstruct some of the principles of psychology were intended less as contributions to that subject than as appeals to psychologists to push their investigations into channels that might be helpful to economics. His *Development of English Thought* was not history, but an attempt to interpret history by the light of social philosophy. All are products of a vigorous and original mind, dissatisfied, as what mind is not, with the present stage of development of the social sciences and seeking to break the bonds of tradition by pointing out new fields for economic research. Whatever the ultimate verdict in regard to these works as contributions to knowledge may be, there can be no question as to their value as contributions to thought.

After such fruitful years it was inevitable that Professor Patten should return to the study of economic problems in an iconoclastic mood. This is perhaps the most striking

characteristic of *The Theory of Prosperity*. Always heedless of disagreements between himself and other so-called authoritative writers, the author appears in this last book as almost reckless in his masterful disregard of conflicting theories, his own of earlier date not excluded.

As already suggested, *The Theory of Prosperity* is divided into two parts: (1) Income as Determined by Existing Conditions (A Study of Efforts and Satisfactions); and (2) Income as Determined by Heredity (A Study of Discontent and its Remedy). Each part is divided in turn into three chapters, as follows: Part I. (1) Work and Pay, (2) Monopoly Advantage, (3) Investments. Part II. (1) Income as Fixed by Struggle, (2) Income as Increased by Adjustment, (3) Income as Modified by Economic Rights. The basis for this arrangement is clearly set forth in the *Introduction*. Attention is there called to the fact that when the concepts wages, profits and rent were first formulated in English economics there was a distinct social class to which each one of these incomes went. At the present time, at least in the United States, it is thought that old class barriers have so far broken down that there is no distinction between landlords and capitalists, and only a shadowy one between wage-earners and property owners. If free play could be given to economic forces class barriers would be entirely swept away. The entire income of industrial society might then be described as wages, as interest, or as rent, according to the point of view. But free play will not be given to economic forces for the reason that hereditary differences will remain. As in the past such differences have perpetuated exploitation in the face of economic forces tending to put a stop to it, so in the future they will perpetuate conditions different from those which economic forces tend to establish. The division of the work into two parts is due to a recognition of these two sets of influences acting on contemporary economic phenomena. Part I considers existing conditions and forces as determinants of income; Part II conditions and

forces of the past which continue to operate in the present as hereditary qualities, traditions, institutions, etc. The distinction may be thought of as a substitute for that made prominent by Professor Clark between economic statics and economic dynamics. So considered the most striking practical difference between the two is that to Professor Patten *monopoly* is a normal result of "existing conditions," while to Professor Clark it has no place in "statics."

As is suggested in the *Introduction*, the three chapters of Part I represent different points of view from which the distribution of income may be regarded. To the individual in direct contact with the environment the relation is that between *Work and Pay*. The more evolved individual of progressive industrial society owes much, if not most, of his income to the enjoyment of some *Monopoly Advantage*. A third point of view is that of *Investments*. The present lives on the past and owes its well-being largely to past foresight. Contemporary distribution results from the interaction of the forces revealed by a study of the problem from these three view-points, or would but for the interference of the hereditary influences discussed in Part II.

In the chapter on *Work and Pay* the thought made most prominent is that production and consumption are related not as means to end, but as phases of a continuous process. Work affords goods, goods afford utility, utility is the subjective accompaniment of the generation of energy, energy expends itself in work. This is the normal round and under normal conditions—free play being given to economic forces and time being allowed for individuals to adapt themselves to existing conditions—every stage of this round is pleasurable. The last point is obscured because men are forced to work longer hours than they would themselves choose during the period of transition when they are becoming adjusted to new tasks, and because many spend their incomes in dissipation, in this way reducing, instead of restoring, their energy, and making any sort of activity painful.

[246]



Elimination of the unfit serves, however, to cut off both the overworked and the dissipated, and in time to evolve a normal type which takes as much or more pleasure in its work as it does in its rest and relaxation. The ideal of the man who works for pay should be to do nothing that is painful or distasteful, except in the face of an emergency, and to consume nothing that does not build up the organism and prepare it for further activity. If wants did not change or increased only at the same rate as productive power, the normal round that has been described would be readily attained and the whole process of distribution would be simple. Each worker would get the equivalent of what he produced.

The discussion of *Monopoly Advantage* is less satisfactory than that of *Work and Pay*. The thought runs somewhat as follows: Monopoly incomes are connected with price changes rather than with changes in value. The former are possible because productive power increases irregularly in different branches of industry and because wants expand unequally. The one certain check on monopoly is found not in the field of production, where combination is quite apt to take the place of competition, but in the field of consumption. It is the power consumers have of substituting other articles for those whose supplies are controlled by the monopolists. This power is sometimes extremely restricted, sometimes so wide that producers must accept prices just covering their expenses of production or go out of business. Sooner or later substitutes will be found for each monopolized good and the monopolist will be deprived of his advantage. At any given time there is a definite limit to the size of the monopoly income, and it follows that what one monopolist gains is at the expense of other monopolists. Early in the century the monopoly fund went largely to landowners. Later the railways acquired the lion's share of this fund. At present industrial combinations appear to have the upper hand. Elevating standards of living and lessening

the risks involved in business tend to reduce the monopoly fund, but its complete elimination can only come when consumers acquire complete power of substitution.

Though acute and suggestive this treatment of monopolies leaves a good deal to be desired. The author uses the term monopoly in such a general way, speaking at times as though it included all differential advantages in production and at times as though it did not, that the reader is left in some uncertainty as to the precise meaning of the term. Moreover, there is a gentle optimism running through the chapter that seems hardly justified by the facts. To be told that whale oil is a substitute for kerosene and prevents the Trust from putting up the price beyond a certain point, is about as consoling as would be the proposition that flying machines will one day serve as substitutes for railways and break the monopoly of transportation agencies. Perhaps the author looks for the latter development in the near future, since he affirms that "the monopoly power of railroads seems, therefore, to have reached its maximum," without offering any very convincing basis for the "therefore" in his proposition.

The chapter on *Investments* is the longest and most important in the book. It is introduced with a theory of interest so novel as to deserve extended notice and concludes with a criticism of Professor Clark's *Theory of Distribution* that is profound if not entirely convincing.

The theory of interest is briefly as follows: As explained by Böhm-Bawerk interest is at bottom the difference between the present price of future goods and the price these goods command when they have ripened into present goods. It is a phenomenon of exchange depending upon the laws governing valuation. Professor Böhm gives three reasons for the undervaluation of future goods: defects of imagination, defects of will, and the shortness and uncertainty of life. To Professor Patten these all seem to be "race differences," and hence he infers that as race differences disappear and all men become alike, interest must disappear also (p. 98).

[248]

If the undervaluation of future goods depends on "existing conditions," it must have some other and more permanent cause.

At this point it might be objected that the shortness of human life and even its uncertainty are in no sense the consequence of "race differences" and that as far as they influence the problem they may be looked to to perpetuate the phenomenon of interest. Also that it is not clear why as men become alike the prevailing type may not exhibit some weakness of imagination or even infirmity of will as did most of their ancestors. The elimination of differences has in no place been shown to involve the appearance of a perfect being and if inability to visualize the future so that it appears in consciousness with the same vividness as the present is a common characteristic of man, it also may serve to perpetuate interest. But these points are unimportant because they have no direct bearing on Professor Patten's own theory.

The permanent ground for interest is found by Professor Patten, as was to have been anticipated, in the field of consumption. Additional commodities enable men to consume better complements of goods. "Men thus value additional complements of goods more highly than the goods they have." "There is always a pressure on a man to consume more than his share or his income so as to enjoy the effect of the enlargement of this complementary consumption. Each increase in the amount of his goods gives a still greater increase in the amount of his pleasure. Consumers want to use more than they have, and make higher bids per unit of goods to get them. The greater is the quantity of the goods the greater is their value per unit. A surplus value is thus created by advances from a smaller consumption of units of goods to a larger and hence a more harmonious consumption of these units. This surplus value is the source of interest." (Pp. 100 and 102.)

It is a hazardous thing to criticize a new theory when it is first formulated. The critic is more apt than not to fail to

grasp the full significance of the innovation and to magnify points that a few words of explanation would clear up. The following objections are advanced, therefore, in a tentative way to induce Professor Patten to elucidate still further his theory of interest, in case its implications have been misunderstood.

At the very outset it is obvious that the proposition that the importance of units of commodities increases with their quantity, because they may be arranged into better complements, involves a denial of the principle of diminishing utility which Professor Patten accepts, in common with other economists, in other parts of his book. If the relation he represents really obtains, marginal utility increases, normally, as the supply increases, and the more men have the more highly they value each unit which they have. That there is some evidence in support of this view is not to be denied. The standard of living rises readily as income grows and makes even a princely income seem insufficient to those who have become accustomed to it. In discussing the relations between different classes this flexibility of the standard of living must be given great weight. On the other hand it must not be overlooked that at any given time each class has its standard of living and arranges the commodities which enter into its consumption into the complementary groups with which it has long been familiar. Additional income to an individual means at the outset simply more goods of the old kinds arranged in the old groups. It takes time to learn new combinations and unless the additional income is enjoyed continuously for a prolonged period, they will not be learned. But if the new income is expended for the old complements of goods it is hardly to be doubted that the law of diminishing utility will apply to them. On these grounds the accuracy of the author's psychology is called in question.

But even if it be admitted that the more men have, the greater is the value they ascribe to each unit, it is not easy

to see that this has any bearing on the question of interest. As Professor Patten recognizes, interest is a problem of exchange value or price, not of subjective value or marginal utility. The latter plays a role in the problem only as it can be shown to influence the exchange ratio between present and future goods. Professor Patten's formula declares that additional goods add more than their proportion of utility to the total enjoyed by each consumer. If true at all, this proposition must be as true of additional future goods as of additional present goods. If more goods mean better complements, more future goods are as much to be desired, unit for unit, as more present goods by the man who has thrown off the "race differences" which caused him to discount the future. Otherwise, the principle, instead of being general, as represented, would be of very temporary and local application. If this objection is well taken, the new basis that is proposed for interest has no connection with the phenomenon to be explained. It refers to the subjective side of value, and not to exchange value or price upon which interest depends.

Space will not be taken to attempt even a summary of Professor Patten's criticisms of the theory of distribution proposed in Professor Clark's *Distribution of Wealth*. The most important conclusion at which he arrives is, that there is a third income that is as persistent, as "normal," and as "static" as wages and interest, that is the income commonly called "rent." His explanation of the relation between rent or "funded income" and wages on the one hand, and interest on the other, is worthy of the most thoughtful attention. It will commend itself particularly to economists who are dissatisfied with the present tendency to disregard the distinction between man-made tools, machines, etc., and nature-given land.

The second part of *The Theory of Prosperity* goes far towards justifying the author's plan of arrangement. Although many will take exception to particular points in

these chapters on "Income as Determined by Struggle," "by Adjustment," and "by Economic Rights," all must admit that they bear out the author's contention that a prominent place must be given in a treatise on distribution to problems of heredity. It is gratifying to know that Professor Patten is already at work on another book which will treat specifically of this phase of the subject.

The line of thought running through Part II may be summarized as follows: There are two sorts of adjustment, "adhesive," or adjustment to the conditions of a restricted local environment, and "cohesive," or adjustment to one's fellows through various forms of social organization. In a progressive society, the former is favorable to exploitation, the latter to philanthropy. Most of the people in any given environment are accustomed to accept low returns for their efforts. As their productive power increases and more wealth results from these efforts, they will permit conquerors or rulers or upper classes to seize this additional wealth and leave to them, the toilers, only the small incomes to which they are habituated. Only gradually do the standards of the masses rise, and meantime their productive powers continue to increase, so that there is always in a developing society a considerable fund for the exploiter. But there is a limit to the amount an individual can consume without loss of energy and degeneration. Excessive consumption or over-nutrition is as fatal as its opposite. It follows that the favored individuals whose incomes grow beyond their needs fall into two classes, the dissipated, who are eliminated by the stern evolutionary process, and the philanthropic, who share their surpluses with their less favored brothers. In this fashion the exploiter, cohesively adjusted to the social group to which he belongs, turns philanthropist. The strong cease to prey upon the weak, and become their helpers.

There are four stages in man's development. Under primitive conditions his chief concern is the avoidance of

pain. He owes his survival in the struggle for existence to his strong passions, which enable him to brush aside obstacles from his path and to overpower his enemies. As he becomes completer master of the situation the pursuit of pleasure takes foremost place as a guide to his conduct. He now develops by the intensification of his desires, which push him on to ever new conquests over the environment. In this stage reason appears and serves as an important aid to his progress. As his desires are more and more fully satisfied his consumption generates surplus energy which must expend itself as activity. At first aimless and spasmodic, this activity-for-its-own-sake gradually comes to be directed along useful channels. It is guided by his impulses just as his productive efforts are guided by his desires. The difference is that while the latter are individual the former are social. Impulses are always toward the ideal, the better-than-self, and the more completely deliberative effort for goods is displaced by impulsive activity the more highly social conduct becomes. Both desires and impulses impel men in the same direction, that is toward perfect adjustment, but they do so in different ways. Desires set up standards to which individuals and classes conform as a means to realizing their own best good. Impulses set up rights, not for the benefit of the individual who asserts them, but for that of the less fortunate individuals who need protection. The goal toward which both are impelling society is pleasurable activity, resulting in the production of pleasure-giving goods, whose consumption generates more energy to be expended in renewed pleasurable activity.

The last chapter enumerates and explains the economic rights which in Professor Patten's opinion are coming to be recognized as of fundamental importance to a free society. These are: (1) Public or Market Rights, or Rights to an Open Market, to Publicity, to Security and to Co-operate. (2) Social Rights, or the Right to a Home, to Develop, to Wholesome Standards, to Homogeneity of Population, and to

Decision by Public Opinion. (3) Rights of Leisure, or the Right to Comfort, to Leisure, to Recreation, to Cleanliness, and to Scenery. (4) Exceptional Rights, or The Right to Relief and The Right of Women to Income. This list is proposed not as exhaustive, but simply by way of illustrating how economic rights react on economic relations. To the extent that public opinion recognizes these rights as valid in future years will the distribution of income be modified in conformity to their requirements and the general well-being be promoted.

The above are only a few of the suggestive thoughts presented in this part of the book. From the point of view of literary form it is much less satisfactory than Part I, while its conclusions admit less of criticism and discussion. It is a valuable piece of pioneer work in a new field and encourages the hope of important results from Professor Patten's next volume.

In closing, it is no easy task to attempt a general estimate of *The Theory of Prosperity*. It is not a complete theory of distribution. Its constructive contributions to economics are so nearly offset by its destructive attacks on accepted views that it is doubtful whether it will take its place, at last, as criticism or as dogma. Finally it contains so much that is novel, and, because of its very novelty, questionable, that the reader is puzzled to make up his own mind as to its value.

These statements may at any rate be ventured :

(1) The suggestion that the proper mode of isolating economic forces for the purpose of clearer analysis is to distinguish between those springing from existing conditions and those due to heredity seems a distinct advance over the distinctions between "natural" and "actual," "normal" and "market," or even "static" and "dynamic," heretofore made use of in economics. It recognizes the part evolution plays in shaping industrial society as do none of the others.



(2) The refutation of the cost—in the sense of pain cost—theory of value and distribution is useful, and more useful still is insistence on the fact that one phase of economic progress is the substitution of pleasurable activity for painful effort.

(3) Clear recognition of the fact that production not only leads to consumption, but that consumption leads to production, is also a step forward.

(4) The accuracy of the picture Professor Patten draws of the part the consumer plays in curbing monopoly and perpetuating interest may be questioned, but it is certain that his analysis confirms his contention that too exclusive attention is given to the production side of these and related questions.

Finally, irrespective of the merits of particular theories, the general contention of the second part of the book that economics has to do not with economic men but with classes, each the inheritor of peculiar mental and moral traits, and that due regard must be given to these differences if contemporary phenomena are to be understood, cannot be too strongly insisted upon.

Like all of Professor Patten's books, *The Theory of Prosperity* will render its principal service by helping others to break away from traditional distinctions and accepted theories. It opens a wide field for thought and study and perhaps not its least merit is that it leaves the reader persuaded that while the field is undoubtedly there, much the larger part of it is still open.

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