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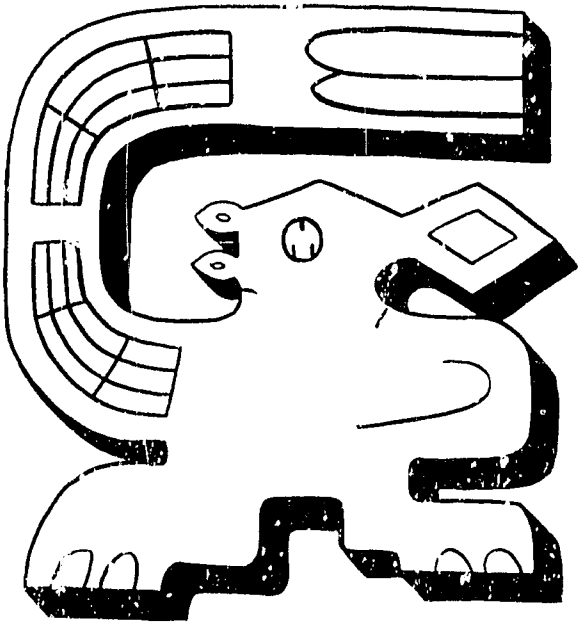

# The Relevance of the Ideas of John R. Commons for the Formulation of Agricultural Development Policies

Remarks upon receipt
of the Veblen-Commons Award,
with an introduction by

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# The Veblen-Commons Award

Kenneth H. Parsons

To honor Kenneth Parsons, I will review his work in institutional economics, in agricultural and development economics, and his collaboration with John R. Commons.

Ken was my faculty advisor in the Department of Agricultural Economics when I was a student at Wisconsin in the 1940s and early 1950s. He was always an inspiring teacher, a source of insight and much broader perspective than that presented to us in mainstream economics courses. This intrigued many students and broadened their interests, even if they did not fully understand his ideas. He exposed us to the philosophy of John Dewey and the institutional economics of John R. Commons.

Ken's contacts with Commons date back to 1929 when he attended Commons' class on "Public Value." He remembers this exposure in the following words: "I was deeply impressed by his viewpoint and genuinely puzzled by the profound difficulties which even sympathetic readers had in understanding what Commons was driving at." After "some ten years of reading and reflection," Parsons published an article, entitled "John R. Commons' Point of View,"[1] in 1942, in an attempt to explain Commons and to relate him to various issues in social thought. This publication, in turn, led to close collaboration with Commons on the latter's last book, *The Economics of Collective Action*.[2] Commons was working on the manuscript of this book in his retirement in Florida in the early 1940s. He was very appreciative of the Parsons article and asked to have it included in the projected book. In November 1943, he wrote Parsons to inquire whether Ken could take time to work with him for a month or two. His strength was failing, and he expressed fear that, unless Parsons could help him, he would not be able to finish the book. Parsons spent five weeks with Commons in the summer of 1944, discussing with him the manuscript and editing it. Parsons returned to Madison with the manuscript in order to check the references, make a few changes, and have it retyped. The manuscript was returned to Commons in the spring of 1945, and he, after a few changes, returned it to Wisconsin in April 1945. As Parsons wrote, Commons felt his work was done. As it turned out, Commons died shortly thereafter in Raleigh, North Carolina, in May 1945, after visiting a few friends at the University of North Carolina.[3]

Parsons' work to finish editing the manuscript continued, and the book was published in 1950.

The University of Wisconsin was Commons' home since 1905, and it was here that he wrote his *Legal Foundations of Capitalism* and *Institutional Economics*.[1] The first three decades of this century were the Progressive Era when Wisconsin politics were dominated by the La Follettes. It was a time when state government worked closely with social scientists and engaged in political and economic reforms. Commons and his students were active in the analysis of social problems and the design of public programs—at first at the state level, and later his students continued activities at the federal level during the time of the New Deal. Commons' students played major roles in the development and administration of social security and collective bargaining and in research positions in the labor movement. But while Commons himself combined his contribution to social legislation with attempts to generate broad theoretical formulations, his students' contributions were confined more to either research and teaching in narrower areas or working directly in the administration of programs.

It was primarily Kenneth Parsons who continued the effort to explain and elaborate the broader implications of Commons' institutionalism and eventually to apply it to institutional aspects of Third World development, particularly in Africa.

In the early 1960s, the Department of Economics at Wisconsin underwent a drastic transformation of bringing in a number of new staff members, highly qualified in mathematical economics and econometrics, more or less confining the institutionalists to the field of labor economics. No member of the department was interested in continuing the course on institutional economics. It was at that time that the chairman of the economics department asked Ken to teach this course. Ever since, institutional economics at Wisconsin has been taught by faculty of Agricultural Economics—Ken till 1968 and me since then.

Unlike economics, agricultural economics, along with other agricultural sciences, was intended by various federal laws, beginning with the Morrill Act of 1862, to contribute to the analysis and solution of practical problems of farmers: research and teaching were to be combined with extension, with farm problems becoming subject for research and research findings providing extension information to farmers. While most agricultural economists concern themselves with issues of farm management and marketing of agricultural products, concerns which tend to focus on applications of mainstream economics, the field has also included the analysis of agricultural policy, cooperatives and other farm organizations, and issues arising out of property rights and conflicts over the use of land and other natural resources. All these issues involve institutional and policy aspects. Even in these areas, the majority of agricultural economists attempt to rely on mainstream economics and/or very practical, ad hoc experience derived from close contacts with the various actors involved. But the

nature of the issues made some agricultural economists interested in looking at the problems from a broader, institutionalist perspective. Kenneth Parsons was one of the leaders of this group and in the 1940s did pioneering research on land tenure in the United States, particularly on the role of the family in influencing the tenure structure of U.S. agriculture.[5]

After World War II, U.S. agricultural economists became deeply involved in international problems and particularly in the development problems of agricultural sectors of the Third World. Kenneth Parsons was one of the first. His interest began with his close work with Third World students coming in increasing numbers to Wisconsin, starting with a large group of Chinese students toward the end of World War II. Ken served in several major overseas assignments: 1949-50, with the Marshall Plan in Paris; 1953-59, with the Ford Foundation in Beirut, Lebanon; 1968-71, as head of the Department of Agricultural Economics at the University of Ife, Nigeria under a University of Wisconsin USAID contract; and 1975, in Honduras with the Land Tenure Center, working on agrarian reform. He conceived the need for, and served as program chairman of, the World Land Tenure Conference held in 1951 at the University of Wisconsin; he was a frequent consultant to the Food and Agriculture Organization (FAO) of the United Nations and was instrumental in initiating FAO research on land tenure. He also participated in many conferences and shorter missions dealing with the problems of the Third World.

Throughout his writings about the Third World, Kenneth Parsons has emphasized that the issue in development is not only efficient growth of production, important as this is, but the quest for "creating and transforming an encompassing social and economic order" that accommodates the needs and new activities of people and resolves conflicts "sufficiently to achieve some degree of order." Ken has long grieved that economics has attempted so hard to resemble a physical science with a mechanistic, Newtonian analysis of commodity relations.

The September 1985 issue of *JEI* has four articles on institutional economics by Kenneth Parsons,[6] myself, and two other members of the Department of Agricultural Economics at Wisconsin. As the preface to that series states, Ken, while listening to a lecture on U.S. agricultural policy, was "inspired to question the adequacy of current economic analysis," and "he challenged the present generation of students to renew the study of institutional economics" (p. 753). This has been his long, often lonely but persistent, inspired and inspiring task, a task well done.

I feel honored to be able to express here my personal appreciation for his work as well as to make these comments about his major contributions to our field.

Don Kanel

# Notes

[1] Kenneth H. Parsons, "John R. Commons' Point of View," *Journal of Land and Public Utility Economics* 28 (1942).

[2] John R. Commons, *The Economics of Collective Action* (New York: Macmillan, 1950; Madison: University of Wisconsin Press, 1970).

[3] Above paragraph drawn from Kenneth H. Parsons, "Editor's Preface," in ibid.

[4] John R. Commons, *Legal Foundations of Capitalism* (New York: Macmillan, 1924; Madison: University of Wisconsin Press, 1957); and *Institutional Economics* (New York: Macmillan, 1934; Madison: University of Wisconsin Press, 1959).

[5] Kenneth H. Parsons and Eliot O. Waples, *Keeping the Farm in the Family*, Research Bulletin no. 157 (Madison: Wisconsin Agricultural Experiment Stations, Sept. 1945); and Erven J. Long and Kenneth H. Parsons, *How Family Labor Affects Wisconsin Farming*, Research Bulletin no. 167 (Madison: Wisconsin Agricultural Experiment Stations, May 1950).

[6] Kenneth H. Parsons, "Commons's Relevance to Contemporary Economics," *Journal of Economic Issues* 19:3 (Sept. 1985); also, "The Institutional Basis of an Agricultural Market Economy," *Journal of Economic Issues* 8:4 (Dec. 1974).

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# The Relevance of the Ideas of John R. Commons for the Formulation of Agricultural Development Policies

## *Remarks upon Receipt of the Veblen-Commons Award*

We propose on this occasion to honor a suggestion Professor Edwin Witte used to make, that those of us who had found Professor John R. Commons's ideas valuable in our work should attempt to explain this relevance to our colleagues in economics. I have not only been trailing Commons by several decades in my career, I have also worked on professional problems very different from those he confronted. To make such transitions of time and existential references requires, of course, that we must seek to achieve a general perspective on Commons's ideas and upon a few key issues in economics as well as upon some central ideas in agricultural development policy.

During the fifty years and more since my student days with Professor Commons, the world has been torn asunder by wars, revolutions, depressions, and the dissolution of empires. Since the countries that were born, or reborn, out of the breakup of empires were mostly agricultural, we in departments of agricultural economics confronted, soon after the close of World War II, a vast array of problems in the economic reconstruction and development of agriculture, worldwide. Since these countries had to start national development programs from where they were, we in this country needed to learn a great deal about the less-developed countries to have any perspective on their histories and problems. Similarly, since economists could only move from where they were, the established and orthodox theories of economics gradually came to dominate the discussions of economists regarding agricultural development policies. These orthodoxies are now approximately

polarized into the "free-market" and the Marxian varieties of orthodoxy.[1]

The problems of agricultural development and development policies differ markedly from one part of the globe to another, as well as from the problems of industrial development. It is also evident that the traditional systems of agriculture in Africa are becoming increasingly inadequate; most are running down due largely to the deterioration of soil and vegetation, with the decline hastened by high rates of population growth. Yet the leaders of these newly independent countries must try to build viable states and economies out of the remnants of tribal societies and subsistence economies, as modified by approximately a century of colonial administration and population growth. Latin American countries may now be surmounting, under a new generation of leadership, the endemic problems of revolutions rooted in the profound inequality fastened upon them by colonial policies—a fate which only Costa Rica seems to have escaped. Marxian doctrine has had something of a field day during much of this century but has nowhere demonstrated that it can provide a policy matrix in which agriculture develops vigorously. The current programs in China to escape the constraints of Marxian totalitarianism and to build a system of modern agriculture on the foundations of more customary ways of doing things seem to be vastly significant.

As I try to understand the various international programs to encourage and support agricultural development, I conclude that, for the most part, they have adopted as a central emphasis that agriculture can be developed by principal reliance upon increasing human control over physical nature—by the application of science and technology, much of it within something like a free-market context; this seems to me to be the main thrust of the programs of the World Bank and the bilateral assistance programs, including USAID, as well as of our great foundations. Nowhere have the comprehensive outcomes been very encouraging. And the future looks no better, unless economists are able to achieve wider terms of reference. The major inference I draw from Commons's analysis on this point is that increasing human control over physical nature can never be more than half—to speak elliptically—of the basis of the development of agriculture, for programs of development must be carried out by the wills, the acts, and the hopes of human beings.

It is in reference to some such situations and programs to develop agriculture in the less-developed areas of the world that I now attempt to

respond to Professor Witte's suggestion. We turn first to the characterization and development of some of Commons's key ideas.[2]

## I.

I note, first of all, that John R. Commons did not consider himself to be, and was not, a dissenter among economists. Rather, Commons attempted to broaden the horizons of economics better to cope with the problems of a national economy in a corporate age. He never spoke disparagingly of the orthodox economics of his day. As I read Commons's interpretation of the development of economic thought, he emphasized the new insights which successive generations of economists have achieved. What set Commons apart in his own day, and even now, was partly that he was able to select strategic problems for research, from which he obtained profound insights into the deeper issues in existence; partly that he was a member of a small band of American intellectuals who devised the "instrumental" approach to philosophical analysis, and within this small group he was an investigator of the most controversial of economic issues rather than a writer of philosophical treatises; and partly that he was seeking to understand how the industrial economy of this country could be humanized and stabilized, without, one should note, impairing the productive efficiency of the system. He was sensitive to the deeper issues of poverty, inequality, and insecurity in an economic system where property and collective action mean power. His first major theoretical effort, published in 1893, was the analysis of the role of monopoly power in the distribution of wealth.[3] But his terms of reference were too narrow. From this, he went on in his research to devise more inclusive ways to analyze the economic order—or, more precisely, the interrelations between the creation and transformation of social, economic, and political orders.

We need to remember, also, that Commons—a midwesterner—was born in 1862 and matured during the tumultuous days that followed the Civil War. This was a time of great social unrest, of the Granger movement among farmers, of rapid industrialization—mostly by immigrant labor, with captains of industry, as they were called, famous for their "public be damned" attitudes. Commons once remarked to a group of students that, as a young man, he had decided he was for whatever helped the common man.

Commons came to Wisconsin in 1905, initially to direct research for a comprehensive documentary history of the industrialization of this

country.[4] He was soon engaged in research on industrial accidents as well and was a key figure in the design of an industrial insurance program to cover accidents and the organization of the Wisconsin Industrial Commission (in 1911), which administered the program. More than anyone else, he provided the economic foundations for the Wisconsin Progressive movement. Kenneth Boulding, in a paper presented to the American Economics Association annual meetings in 1956, remarked (in part): "through his students Commons was the intellectual origin of the New Deal, of labor legislation, of social security, of the whole movement in this country toward a welfare state. . . . He was the first brain-truster—operating, it is true, only for the most part on the narrow stage of Wisconsin, but setting a pattern of great importance for the next generation. The history of Commons's influence still remains to be written."[5] Our interest here in Commons's formulation is, of course, with the issues of theory and methodology he devised rather than with the particular problems he addressed.

In his analysis of industrial accidents in the lumber industry of Wisconsin, Commons found young men using power saws and other sharp cutting tools with little attention being given to safety. Serious personal injuries were frequent. The Marxian slogan of the day was: "The capitalists are turning the workers' blood into gold." Commons found that if a worker sought compensation for injury he had to prove employer negligence under the English common-law rules for master-servant relations. But the master in this case was likely a corporation domiciled in another state. Commons and his associates devised a new approach to the formulation of procedural rules relevant to the prevention of and compensation for industrial accidents.

They proposed that all workers in plants above some minimum size be insured against accidents through an employer-paid compulsory insurance program, with scheduled rates of compensation assured to injured workers regardless of fault. Safety rules were devised by representatives of the employer, the workers, and the public. Through hearings and investigation a commission formulated procedural rules, which in effect became statutory law in Wisconsin. Commons insisted, however, that the costs of insurance to each employer should reflect the actual accident record in his own plants to encourage the adoption of safety devices. The inspectors became safety engineers rather than police-types as under the common-law regime. The outcome was not only a marked reduction in accidents and assured worker compensation, but that safety became a concern of the whole industry. In effect,

the whole cost of the program—and more—was covered out of increases in social efficiency.

Essentially the same pattern of inquiry was followed by Commons in response to a request from the governor of Wisconsin that he solve the problem of the corruption and sporadic investment that resulted from the short-term franchises by which public utilities were then chartered in Wisconsin, and, more importantly, that he find a way public utility rates could be regulated without the regulations being struck down by the Courts as taking of property without due process of law under the fifth and fourteenth amendments to the U.S. Constitution. Inquiries into these questions, particularly the ones regarding due process of law, kept Commmons and his students busy for several years. After some seventeen years of work, Commons published *Legal Foundations of Capitalism*, in 1924. It was during this long inquiry that Commons's viewpoint was systematized. Out of his research, Commons came to see systems of human organization as going concerns, given form by working rules honored and potentially sanctioned by whatever powers are at the disposal of the heads of the concerns. This is also a general conception of social order—order created and transformed through the selection, modification, and honoring of procedural rules.

I have found Commons's analysis of the transformation of English feudalism and the guilds to be most suggestive regarding the problems of creating productive and equitable national economic orders today in the less-developed countries of the world. William the Conqueror in 1066 considered the land his by right of conquest, and the people his subjects. This pushed the Saxon people already on the land into a subordinate status of tenancy. This they resisted. But the Crown required not only a productive agriculture but also foot soldiers to sustain and protect the realm. In short, the survival of the realm required a considerable degree of willing participation from the native people. To secure the participation of cultivators, the Crown gradually devised a system of King's Courts where the disputes between landlords and tenants were settled—this by selectively honoring and enforcing the customs practiced in the area. Out of this came the whole system of the common law of England, with deep roots in the lives of the people. The system of common law was eventually supplemented by the laws of equity—out of the necessity to provide sufficient security of expectations for the future to induce the investment needed for economic development.

The crucial change in the procedural rules of government which separated property in land from sovereignty (and therefore rent from

taxes) was made by Parliament in 1660. Commons describes this change:

> Thus the right of private property in land emerged from the struggle of 450 years between the sovereign as landlord and his vassals as tenants, over the rental value of land. The collective bargaining over rents, beginning in the Magna Carta in 1215 and ending with the Restoration and a limited monarchy in 1660, transferred dominion from the will of the sovereign to the will of the tenant, by the simple device of making fixed and certain, in terms of money, instead of arbitrary in terms of commodities and services, the rents owed by the tenant to the monarch. Private property emerged from the rent bargain carried on collectively in terms of money between supreme landlord, the king, and his tenants. The duty to pay definite taxes in cash, determined collectively by the monarch and the representatives of the taxpayers, was substituted for the indefinite duty to pay rent, in commodities and services, determined individually by the chief landlord.[7]

The restrictions so placed upon the arbitrary exercise of the powers of prerogative by the king assured a limit to the duties to the king for which the tenants were liable. These limitations on the powers of the prerogative created—in Commons's phrases, "an indefinite residuum," and "orbit where the will is free."[8] It was within this secure niche, created by curtailing the arbitrary powers of prerogative, that growth and development occurred and within which people gradually acquired citizenship, a more representative parliamentary government was established, and the common-law rules of property were created.

We cannot now further follow Commons's analyses of property, power, and the various forms that collective action have taken in the Anglo-American tradition. Here we note simply two points in Commons's conclusions: (1) that economic institutions were essentially collective action in the restraint, liberation, and expansion of individual actions[9]—this recognizes the possibility of a creative role for procedural rules; and (2) that there were two major kinds of transactions implicit or specified by the procedural rules—authorized and authoritative.[10] In authorized transactions, the procedural rules specify the limits within which the individual actions may occur by specifying avoidances—thus to this extent making the wills of the actors supreme in their particular domains. Authorized transactions are idealized in conventional economics as free markets. The procedural rules for authoritative transactions, however, specify individual performances—intended to make the wills of those in authority effective, top to

bottom. This latter is what we mean by a totalitarian system. Under such arrangements, there is little or no "indefinite residuum," little or no "orbit where the will is free," and, one might add, unsatisfactory rates of national agricultural development.

Although Commons's writings may seem complex to economists, I have yet to meet an economist who did not consider what he did—his emphasis upon institutions, property, economic power, corporations, unions, even transactions—to be of importance, although they might not consider it to be economics. Stated differently, I know of no economist who considers the character of the economic order to be insignificant. Then why have such issues been ignored by so many economists? The answer, in my judgement, can be summarized by two ideas, both of which have a long history: (1) conventional economic analysis centers upon the economy as a universe of commodity relations; and (2) the operations of national systems of economy can best be analyzed by viewing national economies as mechanisms for transforming resources into commodities.

Kenneth E. Boulding, one of the more brilliant economists of our time, has long emphasized the concentration of economic analysis upon commodity relations, to which the principle of mechanism has always been a counterpart. However, he has commented recently, with some alarm, about the consequences of the "equilibrium trap" in which economic analysis has been caught. In an invited lecture given to the American Association of Agricultural Economics in 1981, Boulding observed regarding economics: "Its theoretical structure crystallized in Adam Smith; it has not changed much since. Adam Smith had a clear concept of the system of commodities as an equilibrium system of quantities and prices. . . . Marshall was clearly uneasy about the Newtonian quality of equilibrium economics and felt that economics should use biological rather than mechanical models. He was never able to achieve this transition. . . . Keynes, again, never escaped the equilibrium trap."[10]

To understand the evolution of this "equilibrium trap," to use Boulding's phrase, it seems helpful to review a bit of British history. For Adam Smith, while amazingly creative, was also a child of his own times. As we all recognize, Adam Smith lived in the early decades of the industrial revolution. By this time there was deep disillusionment with the rules of mercantilism.One senses that this was a time of great expectations regarding the potentials of the machines then being invented as well as the promise of of the industrial revolution just beginning. In

consequence, modern economic theory has developed as an interpretation of the industrial revolution and its sequences—as economists have tried to understand and give some direction to evolving national systems of economy as they lurched along from era to era, getting farther and farther away from immediate relevance to the existential conditions which prevail in the least developed countries of the world.

I am also deeply impressed by the significance for economic thought of Professor A. N. Whitehead's analysis of the intellectual climate of the seventeenth to the nineteenth centuries. Whitehead refers to the seventeenth century as the "century of genius" and observes, "The combined labors of four men [Galileo, Galileo, Sir Isaac Newton, Rene Descartes, and Christian Huyghens] have some right to be considered the greatest single intellectual success that mankind has ever achieved."[12] The great culmination came, of course, in Newton's *Principia* with his formulation of the natural principle of mechanism. Whitehead remarked regarding this principle, "The history of thought in the eighteenth and nineteenth centuries is governed by the fact that the world had got hold of an idea that it could neither live with nor live without."[13] And so it has been with economics ever since.

In the opening chapter of *Legal Foundations of Capitalism*, Commons commented on the influence which Newton's principle of mechanism had had upon the thinking of economists and suggested why he had concluded that an understanding of our modern system of economy required that economists should give attention to "working rules." He noted that the principle of mechanism formulated by Sir Isaac Newton had become the leading principle of explanation for all the sciences, including law, economics, ethics, and politics. In short, for economists this principle had become "a habitual assumption" regarding the functioning of the economy. This habit of mind was not significantly modified by the development of marginal utility theory, this because "commodities and feelings were concepts related to the wants and efforts of individuals" and could still be explained by Adam Smith's mechanical principles of individualism. But when economists were confronted (as he was) by the incoming of corporations and other forms of human association, as well as by the participatory role of government in the economy, including the "interference of government through taxes, the police power and the legal tender power"—and he might well have included the sanctioning of the duties which create and give value to property rights and assure the payment of debts—then they "had to concern themselves with what may broadly be named the working rules of going concerns."[14]

## II.

As we turn to a consideration of the issues in agricultural development policies for less-developed countries, we may remind ourselves that Commons recognized the value and the necessity of achieving a technically efficient, productive economy of agriculture, as is conventional among economists. But he directed his effort to supplementing this conventional emphasis by study of the problems of creating and transforming the encompassing social and economic order. Witl in this latter context, I conclude that I should at least summarize as a background for what follows a few major inferences, which I draw from the preceding sketch of Commons's ideas.

(1) Commons was above all else, for all his life, an investigator. His reasearch led him to view national economic systems from the perspective of the encompassing social and economic orders rather than from the mechanics of the operations of the system. His research centered on how such orders had been established and transformed in the Anglo-American tradition.

(2) Commons came to consider the limiting factor in the creation and transformation of economic orders to be "procedural rules"—or "the working rules of going concerns," as he called them. This was where thought could get an effective grip on social existence. This was also an embodiment of his conception of causation, attention to the limiting factor—what philosophers call the "leverage principle" of causation.

(3) The procedural rules of national systems implicitly specify whether the persons whose activity is guided by the rules engage in authorized or authoritative transactions. Historically, in England, authorized transactions were only generally realizable as a result of the restraints imposed upon the power of royal prerogative. The "indefinite residuum" so created also provided "an orbit where the will is free." On the foundation provided by this "indefinite residuum" have grown the freedom of the citizens, freedom of choice in authorized economic transactions, private property, and parliamentary government—and much more.

Accepting this interpretation as a provisional background, we now attempt to explain briefly three sets of issues emphasized by Commons which seem to us to be of direct relevance to the formulation of agricultural develoment policies in the less-developed countries of the world, all of which are directed toward the establishment of a productive economic order:

(a) Commons's belief that the customs of a people are a great, even an

indispensable, resource in the creation of a productive and equitable economic or social order;

(b) Commons's emphasis on "reasonable value";

(c) Commons's acceptance of the idea of commonwealth as something of a practical ideal in the design of national economic and political orders.

*Customs*

We turn first to comments on "customs." I remember well the first time I heard Professor Commons mention this in class. Bank checks, he observed, are not legal tender in the United States. They are merely a custom of business used for the settlement of accounts. But, said Commons, any business which refused to accept checks in the settlement of debts would soon be bankrupt. In *Institutional Economics*, Commons noted: "For Custom is not merely something that happened in the past when man was stupid; it is the expected repetition of transactions that must be observed by individuals if they expect by dealing with each other to make a living or get rich."[14]

Some further insight into the formative role of custom in societies and economies is suggested by his definition of an individual. In a comment upon the significance of the differences in concepts in economics which result from the theory of relativity in comparison with the fixed categories in the formulations resulting from Newton's thought, Commons remarked: "An individual is a different person according to the nature of the concerns of transactions in which he participates. . . . The individual is a system of relations and changes with the collective actions of which he is part and product."[15]

Now, if in the interest of precise meanings I may resort to a further quotation from Commons, I would cite a passage from the *Atlantic Monthly* of 1925 in which he compares Karl Marx's views with his own:

> Here is the culminating oversight of Karl Marx in his theory of socialism, and the one which comprehends all the others; namely, the failure to see the importance of custom and what, in Anglo-American jurisprudence, is named the common law. The same oversight existed for Ricardo, for Adam Smith, and for the capitalistic as well as the socialistic economists. For them, there was no intervening principle of human behavior between the compulsory edicts and laws of sovereignty, on the one hand, and the individual bargains of private property, on the other hand. Private property, for them, was actually created by the sovereign, and it logically followed that the sovereign could abolish private property.
>
> But if we recognize that private property—or rather the rights, duties, liberties and liabilities of private property—is merely an historic custom,

> of the race but also continually changing as economic conditions change, then we can see that between the individual and the State is a supreme principle of stabilization by custom, which both regulates the individual proprietor, on the one hand, and overrides the arbitrary will of the State on the other hand.[16]

In the development of agriculture—in all programs which have been based upon Marxian doctrine, so far as I know—the "arbitrary will of the State" has encountered unrelenting resistance from the peasants. This, we infer, has resulted from the determination of cultivators to retain or achieve more of an expanded orbit where the will is free than was possible within the authoritative transactions implicit in the procedural rules of Marxian ideology. Traditional agriculture seems to provide numerous examples of the supreme principle of stabilization by the customs of which peasants are "both part and product."

In all traditional systems of survival of subsistence agriculture, past or present, so far as I have been able to find out, there have been two basic but interrelated procedures for the organization of human activity regarding the use, occupancy, and descent of land upon which the people's survival has depended.

A people made a territory theirs by conquest and by defending it against all challengers. This is the foundation of public order. This was the case with tribal societies; this was the basis for colonial conquest, including the occupation by Europeans of America; and this is the root of the sovereign interest in land everywhere.

Within the territorial order so achieved, a second procedure functioned to define the nature, scope, and limits of survival opportunities assured to the individual members of the landholding group. Where people survived, wholly or partially, by settled cultivation, the usual procedure was that the chieftain, or other head of the landholding group, allotted to an individual member—usually a young man at the time of marriage—a tract of land for the use and occupancy of his family and his descendants as long as the land was put to use and kept in use according to community standards. People speak of such land as "my land" or "our family land."

This latter procedural rule is an exemplification of the ideas of John Locke that a person made land his own by mixing his labor with the soil and appropriating it from the state of nature. Approximately this sort of subsistence-survival system of agricultural economy was devised by all cultivating people of all times and places, as far as I know. As Manning Nash, an anthropologist, remarked, "In most societies land tenure is merely the geographical expression of social structure."[17]

In areas not suitable for survival by cultivation, and to the extent that a people depended upon a grazing economy, this second, or Lockean, procedural rule was not relevant—beyond the homesites, houses, and dooryard gardens. In grazing economies, security of individual survival opportunities through land use could be achieved only by the rules which specified the terms upon which individuals and families shared in a group economy, such as how many cattle could be run in the community herd.

These few references to the significance of customary procedural rules for the use and occupancy of land in Africa may at least illustrate why Commons had such profound respect for customs and human experience generally. He accepted the philosophical view that the mind is a creative interaction in events. He also knew that social conflicts are inherent in any society and that there are no wholly intellectual procedures for achieving a tolerable degree of order in conflict situations. Thus he sought out and emphasized going concerns of joint activity, for this meant that conflicts had been resolved sufficiently to achieve some degree of order.

My own judgment is that agricultural development in tropical Africa could be given a new foundation for development if the traditional procedural rules regarding the use and occupancy of agricultural land were reformed and converted into a form of property rights comparable to the evolution of the common-law rules for land devised by the King's Courts in England, which Commons has analyzed carefully. I would suppose that the titles to individual tracts of land should not be as freely and fully alienable as in this country, but that the security of use and occupancy of land should be firmly assured. This could at least give a dependable base upon which investment and managerial skills could be put to work. Lacking this, lacking even respect for the traditional organization of agriculture, programs for the development of agriculture by increasing human control over physical nature by the application of science and technology are destined to destroy the social order itself—which can be only a short distance from chaos.

*Reasonable Value*

There are a few phrases which one associates with Commons that have gained wide currency among economists—"security of expectations" and "willing participation," for example. But there was one phrase that he used often that was not understood, and which one rarely hears from economists: "reasonable value." This, I would now suppose,

is a result of his emphasis upon problems of creating and transforming social and economic orders, whereas conventional economics takes order as a datum and concentrates upon the economy as a universe of commodity relations, emphasizing the operations of economic systems' transformation of resources into commodities.

Commons adopted the phrase "reasonable" from juridical procedures. My impression is that the term "value" was an expression of his own interests—hence "reasonable value." At the close of his teaching career at Wisconsin, he was offering two courses: one, "Public Value"; the other, "Value and Valuation." In situations where interests are in conflict and joint action must go forward, if disaster is to be avoided and the benefits of mutuality are to be realized, a reasonable course of action becomes what people can agree upon—as the best compromise attainable under the circumstances—the choice of which can be vastly improved by investigation. Once one realizes that Commons's central emphasis was upon the social and economic order, the question of value as price, for example, is not a relevant issue—except as the outcome of consequences of the scope for discretionary action permitted by the working rules of the prevailing order.

I interpret the phrase "procedural rationality," as used by Professor Herbert A. Simon, to refer to the same set of issues that Commons was struggling with under the term "reasonable value"—except that Commons was centrally concerned with understanding the problems of creating order out of conflict. Simon remarked that, "Behavior is procedurally rational when it is the outcome of appropriate deliberation. Its procedural rationality depends on the process that generated it. When psychologists use the term rational, it is usually procedural rationality they have in mind."[18]

By contrast, classical economics, according to Simon, emphasized "substantive rationality": "Classical economics rests upon two fundamental assumptions. The first assumption is that the economic actor has a particular goal, for example, utility maximization or profit maximization. The second assumption is that the actor is substantively rational. Given these two assumptions and given a description of a particular economic environment, economic analysis could usually be carried out using such standard tools as the differential calculus, linear programming, or dynamic programming."[19] One might add that substantive rationality also seems to function within the postulate of the economy as a Newtonian mechanism. In the concluding section of the essay in question, Professor Simon observed: "The shift from theories of substantive rationality to theories of procedural rationality requires

a basic shift in scientific style, from an emphasis upon deductive reasoning within a tight system of axioms to an emphasis upon detailed empirical exploration of complex algorithms of thought."[20]

I do not see how it is possible for economists to contribute fully to the formulation of agricultural development policies for the less-developed countries of the world without getting involved in social value judgments about reasonable courses of action, particularly for the uses of the power of state. Such actions should hold some prospects of creating economic orders which have the capacity to carry the stresses and strains of conflict of interest and provide a tolerable degree of security of expectations for cultivators as managers and investors.

*Commonwealth*

As an objective for the overall design of the system of procedural rules, known as an economic order, I conclude that Commons was deeply influenced by the concept of commonwealth—first promulgated by Sir Thomas Smith, secretary to Queen Elizabeth I of England. (Commons comments extensively on these ideas in *Legal Foundations of Capitalism*.) Sir Thomas published the English version in 1598 (following a Latin edition twenty-two years earlier) under the title, *The Commonwealth of England*. Sir Thomas's central idea of commonwealth was that he explicitly included in the concept both economic and political status. Although at the time of his writing Sir Thomas observed that only a few classes of people were actually members of the commonwealth, most of the folks, including craftsmen, were only "low rascal sort of people."

As Commons interpreted these ideas, he noted that Sir Thomas had explicitly included the economic and the political in a single concept—it was the notion both of commonweal and of participation in that weal through the possession of rights and corresponding powers to enlist the officials of government on one's behalf. "The classical economists tended to separate the wealth of nations from the commonwealth, making the wealth of nations identical with the prospects of but a single class within the commonwealth, the business men, upon whom all other classes depended for their prosperity . . . [But the notion of commonwealth was] a notion of participation by each freeman in both the government and the wealth of nations."[21]

As I understand Commons's thought and the perspective which he gradually achieved, the idea of commonwealth was viewed as something of an ideal—as a way of seeing national economic and political orders as a whole. If so, the ideal of commonwealth may serve—in our thinking about the formation of a national economic order as a national

system of procedural rules in development programming—a function comparable to the idea of free-market economy when national economic systems are viewed as systems of commodity relations.

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*Notes*

1. For a similar conclusion, in a thoughtful account of one who has participated actively in the theoretical analysis of development, see Albert O. Hirschman, "The Rise and Decline of Development Economics," in *Essays in Trespassing: Economics to Politics and Beyond* (New York: Cambridge University Press, 1981).
2. I have made a start on this recently in a lecture to our graduate students. See Kenneth H. Parsons, "John R. Commons: His Relevance to Contemporary Economics," *Journal of Economic Issues* 19 (September 1985): 755–78.
3. John R. Commons, *The Distribution of Wealth* (1893 reprint ed., New York: Augustus M. Kelley, 1965).
4. Out of this research came the documentary history by John R. Commons et al., *A Documentary History of American Industrial Society*, 10 vols. (Glendale, Calif.: Arthur H. Clark, 1910).
5. Kenneth E. Boulding, "A New Look at Institutionalism," *American Economic Review* (Papers/Proceedings) 47 (May 1957): 1–12.
6. John R. Commons, *Legal Foundations of Capitalism* (New York: Macmillan, 1924), p. 220.
7. Ibid. p. 221.
8. John R. Commons, *Institutional Economics: Its Place in Political Economy* (New York: Macmillan, 1934), p. 73.
9. Commons, *Legal Foundations*, pp. 83–134.
10. Kenneth E. Boulding, "Agricultural Economics in an Evolutionary Perspective," *American Journal of Agricultural Economics* (Proceedings) 63 (December 1981): 788–95.
11. A. N. Whitehead, *Science and the Modern World* (New York: Macmillan, 1946), p. 67.
12. Ibid., p. 74.
13. Commons, *Legal Foundations*, pp. 5–6.
14. Commons, *Institutional Economics*, p. 239.
15. John R. Commons, *The Economics of Collective Action* (New York: Macmillan, 1950 [passage written in 1944]), p. 117.
16. John R. Commons, "Marx Today: Capitalism and Socialism," *Atlantic Monthly* 136 (1925), pp. 686–87.
17. Manning Nash, *Primitive and Peasant Economic Systems* (San Francisco: Chandler, 1966), p. 34.
18. Herbert A. Simon, "From Substantive to Procedural Rationality," in *Method and Appraisal in Economics*, ed. Spiro Latsis (Cambridge: Cambridge University Press, 1976), p. 131.
19. Ibid.
20. Ibid., p. 147.
21. Commons, *Legal Foundations*, p. 229.