NEW WAYS OF THINKING

A new school of political economists emerged in the United States in the 1880s. This new school comprised young men who, in the 1870s, studied German historical and statistical economic thought. Some German scholars had rejected the deductive reasoning of Adam Smith and his successors in favor of observations of historical and statistical information from which, through inductive reasoning, economists and policy makers believed they could reach conclusions.

The basis of this new school of economic thought lay in the rejection of the assumption of the classical economists that self-interest always governed the actions of humans. Other factors, it was maintained, also affected human behavior: altruism, national honor, and the like. The economists of the new school thus attempted to combine political economy with ethics and, from their pragmatic observations of the realities of economic life, to determine prescriptions regulating business and achieving the public interest.

The leader of the new-school economists in America was Richard T. Ely, who graduated from Columbia College in 1876 and earned his Ph.D. in 1879 at Heidelberg University in Germany. From 1881 to 1892, he taught economics at Johns Hopkins University in Baltimore, after which he spent more than thirty years on the faculty of the University of Wisconsin. Ely not only wrote numerous books and essays during his long and distinguished career but also lectured widely and served on government commissions.

An essential ingredient of Ely's leadership of the new school was his role in founding the American Economic Association in 1885. This association brought together the younger economists influenced by the German theories. Among the charter members were twenty-three clergymen, most notable of whom was Washington Gladden, the father of the Social Gospel movement in America. The Social Gospel was a Protestant church movement formed to help ease the hardships of life faced by the poor and by workers in the factories and cities of the industrial age. When Ely drafted the platform of the American Economic Association, he unequivocally repudiated laissez faire: "We regard the state as an educational and ethical agency whose positive aid is an indispensable condition of human progress. While we recognize the necessity of individual initiative in industrial life, we hold that the doctrine of laissez-faire is unsafe in politics and unsound in morals; and that it suggests an inadequate explanation of the relations between the state and the citizens." Those words expressed a sentiment that was to have a profound impact on government-business relations in the Progressive Era.

This rejection of laissez-faire doctrine did not mean that Ely or his colleagues believed in state paternalism or socialism. As Ely explained, in a democratic society the government is the people, so when the government acts on behalf of the general welfare, it is acting fraternally, not paternally. In this regard, the role of the economist seemed clear. "In a certain sense," Ely noted, "the political economist is to the general public what the attorney is to the private individual." The economist is a guide, helping the people to determine the public interest. In Ely's view, such guidance should direct policy to some middle course between unbridled competition and state socialism. The prevailing business system had produced social evils of poverty and degradation apparent to anyone who cared to observe them, but in Ely's eyes their amelioration had to involve policies that preserved individual freedom.