JOHN ROGERS COMMONS

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John Rogers Commons (1862–1945) was a student of economic institutions in action. In fact, he took his college classes to visit prisons, charitable organizations, mental hospitals, law courts, union halls, factories, and legislative chambers. These excursions exemplified his approach, for he sought to integrate the social sciences—ethics, sociology, psychology, political science, history, and jurisprudence—with the study of economics. Commons also became a great reformer, a forerunner of the New Dealers. He advocated an increasing role for government in adjudicating among the conflicting interests of many different groups. Instead of a harmony of interests, he detected a clash of interests that had to be curbed for society to function in an orderly manner.

Commons was born in Ohio during the Civil War. His parents practiced their antislavery views by helping to run an underground railway for the escape of black slaves to Canada. His father was an impoverished newspaper publisher who taught his son the printing trade, and his mother ran a boarding house to help support the family. Commons graduated from Oberlin College at twenty-six, earning his way as a typesetter in a printing office and losing time because he suffered several nervous breakdowns. He was an ardent labor unionist, and after reading Henry George's *Progress and Poverty* in his freshman year, he became a "single-taxer." His record as an undergraduate was poor, but he was permitted to graduate because his illness was an extenuating circumstance and because his professors recognized his insatiable curiosity and persistence.

Commons did two years of graduate work at Johns Hopkins University but did not earn his Ph.D. because he failed a history examination. He then taught a year at Wesleyan University, but his contract was not renewed. Subsequently he found employment at Oberlin, Indiana University, and Syracuse University. When Commons was interviewed by Chancellor James R. Day of Syracuse in the spring of 1895, he decided to tell the whole truth: He labeled himself as a socialist, a single-taxer, a free-silverite, a greenbacker, a municipal-ownerist, and a member of the Congregational Church. The chancellor replied that he did not care what Commons was as long as he was not an "obnoxious socialist." In his autobiography called *Myself,* Commons, with whimsical exaggeration, wrote: "That settled it. I mistakenly thought I was not of the obnoxious kind."

At Syracuse Commons occupied the chair in sociology established by Mr. Huyler, the candy manufacturer. "I taught ethnology, anthropology, criminology, charity organizations, taxation, political economy, municipal government, and other things, all under the name of sociology." His career at Syracuse foundered when, without prior consultation, he was announced as one of the speakers at a mass meeting of all the churches protesting Sunday baseball. Chancellor Day was the chairman and principal speaker at the meeting. Commons hurriedly investigated the problem, and in his speech he opposed professional baseball with admissions fees on Sunday. But he defended the right of the workers to play on Sunday in view of their having to work six full days a week. Despite threats of irate parents to withdraw their children from Syracuse unless Commons were dismissed, Chancellor Day defended his right to dissent. However, it became more difficult for Syracuse to solicit funds successfully because of the baseball episode, and a year or so later the Board of Trustees abolished the Huyler chair in sociology instead of dismissing Commons. Thus, after four years at Syracuse, Commons was once again without a job. He drew some inferences from this experience:

> It was not religion, it was capitalism, that governed Christian colleges. Afterwards I sought the fundamental reason, and included it in my historical development of Institutional Economics. The older economists based their definitions of wealth on *holding* something useful for one's own use and exchange. I distinguished a double meaning. The other meaning was, *withholding* from others what they need but do not own. . . . It made possible a distinction of Wealth from Assets which I began to think economists and laity had failed to distinguish. . . .
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> I figured that a "chair" in political economy was not physically pulled out from under you, it was economically pulled out by withholding the funds. This was such a customary, legal, and quiet way of doing it, under the institution of private property, that everybody, including economists, took it as a part of the Natural Order not needing investigation. At least, I knew, after 1899 at Syracuse, that holding and withholding were not the same, and that the latter was more important. It was the foundation of assets. It converted Chancellor Day from defiance of Protestants to leg-pulling of Plutocrats.[1]

During the following five years, Commons received subsidies and salaries from various sources to engage in research. In 1900 he began publishing the first monthly index of wholesale prices. The index was terminated, along with Commons' salary, in September 1900 when it started to rise, to the chagrin of the wealthy Democratic bimetallist who financed the venture. Commons' employer disliked this indication of McKinley prosperity. It may well have been Commons' deep alienation during this period of joblessness that led him to consider "unemployment the bitterest form of the capitalist system."

Commons studied immigration for the federal Industrial Commission. He worked for the National Civic Federation, which sought to conciliate labor disputes through collective bargaining and trade agreements. In 1904 he went to the University of Wisconsin, where he remained until retirement. As an advisor to Governor Robert M. La Follette, he drafted Wisconsin's civil service law and a bill providing for state regulation of public utilities. In 1911 he wrote the draft of a law providing for workmen's compensation and accident prevention. In 1912 he developed the idea that the employer should be financially responsible for unemployment; this was enacted into law in Wisconsin in 1932. To end the "loan

[1] John R. Commons, *Myself* (New York, 1934), 58–59.

shark" evil, Commons helped get a Small Loans Act passed, limiting interest to 3.5 percent per month. He was the author of Wisconsin's minimum wage law for women and its improved child labor law; he also advocated a program of health insurance, not established in his time. Commons pioneered in writing labor history, in promoting labor conciliation, and in advocating social legislation.

CONFLICT OF INTERESTS

Commons, like other institutionalists, made the conflict of interests, not the harmony of interests, the starting point of his economics. Each school of economics, he said, arose out of a conflict of interests, yet each rejected the conflict from which it sprang. Economic conflicts, which lead to political and military conflicts, originate in scarcity. Economic classes develop from similarities of interest in obtaining and retaining ownership of shares of the world's limited supply of wealth. Commons felt that Marx had erred in two respects: first, in maintaining that there are merely two classes, and, second, in failing to identify the major class conflict. Commons held that the major clash of interests occurred between producers and consumers of wealth. These two groups could be broken up into many conflicting subclasses, such as buyers versus sellers, borrowers versus lenders, farmers versus laborers, and capitalists versus landowners. These subclasses in turn could be broken down into wheat farmers, livestock farmers, bankers, manufacturers, merchants, skilled and unskilled laborers, mine owners, railway owners, and so on. Economic classes organized for concerted action according to shared economic interests. This results in collective action within groups and conflicts among groups. Out of these conflicts arise a workable harmony of interests, a stalemate, or an untenable impasse that requires the strong arm of still another collective action—practical politics and war—to bring not harmony but order out of conflict. In addition to conflict, groups also strive for mutual dependency and have a desire for orderly and stable relations. Because social phenomena embody the contradictory elements of conflict, dependence, and order, they cannot be analyzed and settled once and forever; instead they are recurring problems that must be dealt with continually.

THE ROLE OF TRANSACTIONS

Transactions between individuals represent the key problem in economics and in jurisprudence. A transaction is surrounded by rules of conduct that give rise to rights, duties, liberties, private property, governments, and associations. These are the reciprocal promises and threats—express or implied—that govern relations with other people. Every transaction is a meeting of wills that involves a transfer of commodities and a determination of their prices.

> The transaction is two or more wills giving, taking, persuading, coercing, defrauding, commanding, obeying, competing, governing, in a world of scarcity, mechanism and rules of conduct. The court deals with the will-in-action. Like the modern physicist or chemist, its ultimate unit is not an atom but an electron, always in motion—not an

> individual but two or more individuals in action. It never catches them except in motion. Their motion is a transaction.
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> A transaction occurs at a point of time. But transactions flow one into another over a period of time, and this flow is a process. The courts have fully developed the notion of this process in the concept of a "going concern," which they have taken over from the customs of business, and which is none other than a technological process of production and consumption of physical things and a business process of buying and selling, borrowing and lending, commanding and obeying, according to shop rules or working rules or laws of the land. The physical process may be named a "going plant," the business process a "going business," and the two constitute a "going concern" made up of action and reaction with nature's forces and transactions between human beings according to accepted rules.[2]

Commons discerned three types of transactions: bargaining, rationing, and managerial. A *bargaining transaction* is the negotiation between individuals of approximately equal status over the purchase and sale of property. Because each party to the transaction has other alternatives, neither is coerced. A *rationing transaction* also transfers ownership or amends property rights, but it is based on an authoritative rather than a voluntary relationship. Examples are governments, which allocate tax burdens; trade unions, which set the wage rates for individual workers; and corporations, which budget their departments and divisions. A *managerial transaction* is also authoritative, as when a company manager or supervisor commands the services of the workers.

Commons thought that all three types of transactions coexist in any society, but that the combinations change with time and place. In the United States, economic factors such as the rise of large corporations enlarged the sphere of rationing and managerial transactions and reduced the scope of bargaining transactions—a substitution of authority for discretion. In other countries, political developments such as the rise of communism and fascism led to a similar result by enhancing command and obedience relationships.

Thorstein Veblen (Chapter 19) defined an institution as a widely prevalent habit of thought; Commons defined it as collective action in control of individual action. The weakness of individuals drives them to combine into corporations and unions. Governments have granted sovereign powers and immunities to these associations. The state itself, however, interferes with supply and demand through its power to declare and conduct war, levy taxes, police the nation, and coin money. The state encourages or protects certain businesses and occupations rather than others; it restrains certain activities deemed detrimental to the whole; it induces individuals and associations to act in one direction rather than another.

> Collective action means more than mere "control" of individual action. It means liberation and expansion of individual action; thus, collective action is literally the means to liberty. The only way in which "liberty" can be obtained is by imposing duties on others who might interfere with the activity of the "liberated" individual. The American people obtain liberty for the slaves by imposing duties on the slave-owners.[3]

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[2] John R. Commons, *Legal Foundations of Capitalism* (New York, 1924), 7–8.

[3] John R. Commons, *The Economics of Collective Action* (New York, 1950), 34–35. Reprinted with permission of the Macmillan Company (New York).

PROPERTY

Commons attached great importance to the meaning of property. Before 1890 the Supreme Court was concerned with corporeal property. Afterward the Court added the concept of "intangible property." Commons interpreted this concept to mean the right to fix prices by withholding from others what they need but do not own. Court decisions involving reasonable value were concerned with intangible property and the conflicts of interest it engendered.

Veblen, said Commons, was introducing the same idea of intangible property into economics at the time that he was. Both men became known as institutional economists.

> But the difference was that Veblen obtained his case material from the testimony of financial magnates before the United States Industrial Commission of 1900, so that his notion of intangible property ended in the Marxian extortion and exploitation. But my sources were my participation in collective action, in drafting bills, and my necessary study, during these participations, of the decisions of the Supreme Court covering the period; so that my notion of intangible property ends in the common-law notion of reasonable value.
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> On analyzing this notion, not only in Supreme Court cases but also in collective bargaining, labor arbitration and commercial arbitration cases, I discovered that, of course, the decisions of these tribunals began with conflict of interests, then took into account the evident idea of dependence of conflicting interests on each other; then reached a decision by the highest authority, the Supreme Court or the labor and commercial arbitration courts, endeavoring to bring—not harmony of interest—but order out of the conflicts of interests, known by the Court as "due process of law."[4]

SOCIAL VERSUS INDIVIDUAL PERSPECTIVES

Commons contrasted the social and the individual points of view. The social concept of wealth depends on use values and on abundance. The individual concept of assets depends on scarcity value and is measured by prices. Capitalism refers to the double process of creating use value for others and restricting its supply so as to create scarcity value. Hence, capitalism requires two units of measurement: the labor-hour and the dollar. The first measures the quantity of use value created; the second measures its scarcity value. Labor-hours measure wealth and represent a producing society, whereas dollars measure assets and represent an acquisitive society.

> Man's power over nature is productivity, measured by man-hours. His output is augmentation of wealth (use-value). Man's power over others is measured by dollars (scarcity-value). It is the quantity of production relative to the quantity wanted, and restriction of output is augmentation of prices, values, and assets.

[4] John R. Commons, *Institutional Economics* (New York, 1934), 4.

> It was this confusion of production with productivity that permitted the economists to abandon Ricardo's man-power and substitute the dollar as the measure of efficiency. This confused producing-power with bargaining power. To buy at low prices and sell at high prices became a definition of efficiency, whereas it is a definition of bargaining power. The latter consists in taking advantage of the relative scarcities of abundance of labor and commodities on the markets. The former consists in taking advantage of the relative powers of a man over nature's forces on the farm and in the factory.[5]

At a time when labor unions were less widely accepted than they would become, Commons defended them as a means of expressing the collective will of workers in bargaining with employers. Collective bargaining allows individual wills to meet and become a part of the collective will. Although government intervention in the economy was generally deplored in his time, Commons suggested that the state had expanded its powers to curb the abuses of the economic power flowing from the accumulation of private property. The state, he thought, exists as an impartial force to rectify the imbalances of power. Workers have a property right in their jobs, and the courts should protect them, just as they protect the business owner's right to a profit.

Commons and Samuel Gompers, long-time president of the American Federation of Labor, knew and admired each other. Both viewed intellectuals in the trade union movement with suspicion. Both believed that by frequently leading the unions into the labyrinth of politics, the intellectuals neglected the immediate issues of wages and working conditions. (Intellectuals are often frustrated and amazed when workers fail to share their enthusiasm for long-range reforms.) Commons and Gompers especially disagreed with radical intellectuals who believed that the labor movement should work toward overthrowing the capitalist system. Accepting capitalism, they opposed radical changes in the system, whether violent or peaceful. They believed in a step-by-step evolutionary process to avoid a host of unforeseeable troubles. As each stage of progress becomes rooted in successful experience, the basis for the next step is created.

Despite Commons' gradualist approach to trade unionism, his views on this and other issues actually won him denunciations for his radical tendencies. Today, however, many of his ideas on social reform are generally accepted and are compatible with the prevailing orthodoxy.

Selected Readings

Commons, John R. *The Economics of Collective Action*. New York: Macmillan, 1950.

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____. *Myself*. New York: Macmillan, 1934.

[5] Commons, *Institutional Economics,* 285–285.