

The Institutional Character of Pecuniary Valuation⁽¹⁾

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Pecuniary valuation is a phase of the general process of social thought, having its special methods and significance but not essentially different in nature: the pecuniary estimates people set upon things are determined in a movement of suggestion and discussion, varying with the group and the time like other phases of the public mind.

This is apparent *a fortiori* if we take what appear to be the simplest and most essential commodities. The estimation of wheaten bread as a necessity of life that prevails with us is a matter of opinion and custom; whether grounded in sound hygiene or not is irrelevant. Other countries and times have thought differently, and we know that foods may be regarded as necessary whose hygienic value is doubtful or negative, like beer in Germany or coffee with us. Consider in this connection the prepared foods known as cereals, for which vast sums are spent by all classes of our people; their vogue and value is clearly a matter of current, possibly transient, opinion, largely created by the psychological process of advertising.

I need hardly go farther into this. It is plain that even among the most necessitous an existing scale of pecuniary values can be explained only as a product of the same social forces which create other phases of tradition and sentiment; and no one will expect anything different in values prevailing among a richer class. I do not mean, of course, that these forces work wholly in the air, but that whatever physiological or mechanical factors there may be in demand and supply, these become active only through the mediation of a psychological process.

It is a common saying that values were formerly determined largely by custom, but that competition has supplanted the latter; and no doubt this is true in the sense that the stability of local custom is broken up. In a somewhat different way, however, customthe influence of the past is as great a factor in the market now as it ever was. Now as always it is the main source of the habits of thought that control demand and supply and so value. An obvious case is that of funerals. Why is it that so large a part of the expenditure of the poor goes for this purpose, so large that a special branch of insurance is carried on to meet it? Evidently the reasons are historical, reaching back in fact to prehistoric society. And although this case appears exceptional, because this particular convention has lost most of its force among the educated classes, it is none the less true that we draw our values from the current of historical influence. What we are willing to spend money for, as individuals, as classes, as nations, can be understood only by a study of historical influences and of their interaction and propagation at the present time.

I have elsewhere⁽²⁾ explained the distinction which I think should be made between human-nature values and institutional values, the latter being those which have social antecedents of so complicated a character that we cannot understand them except as the outcome of a special institutional development. It is apparent that the values of the pecuniary market fall under the latter head. Their immediate source is a social mechanism, whatever their indirect relation to human nature may be. You do not find them wherever man is found, but only where there is a somewhat developed system of exchange, a commodity recognised as money, and an active market.

Pecuniary values, however, are by no means all upon the same level as regards the degree in which they are institutional. All are so in the sense just indicated that they require the mechanism of the market to define and develop them. But if we go back of this we find that some are based (so far as demand is concerned) upon rather simple human-nature values, in which the factors of special tradition and organization play no very great part. It is remarkable, when you come to think of it, how few such values there are; but those of meat and flour, of lumber, fuel, and the simpler kinds of clothing are relatively of this sort. Some, on the other hand, are the outgrowth of a complex institutional history through which it is difficult to trace the threads which connect them with the permanent needs of human nature. Such are the values of ornamental or ceremonial dress, of many of our foods, of our more elaborate houses and furniture, our amusements and dissipations, our books, and those connected with our systems of education, our churches, political institutions, and so on. The same difference runs through the values set on the services of different kinds of men.

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Why society should pay a substantial price for farmers and carpenters is obvious; but when you come to lawyers, stockbrokers, promoters, men of science, advertising men, and the like, not to speak of the holders of capital, who seem to be paid large sums for doing nothing at all, it is clear that the explanation is institutional, not to be reached without a study of the organic growth and interaction of social forms. And it seems dear also that values of this latter sort greatly and increasingly preponderate in our social system.

There is a fallacious kind of reasoning often met with in discussions of value, which consists in taking the simplest conceivable transactions, generally those of an imaginary primitive life, noticing the principles upon which they may have been based, and then assuming that the same principles suffice for a general explanation of the complex transactions of our own life. "It is the same thing now, only more intricate," is the supposition. This, of course, overlooks the fact that even granting that such analyses are otherwise sound, which is very questionable, the social complexity is for many purposes the essential thing in the actual value process. It involves an institutional character, which changes with the social type, which may be understood only through a knowledge of institutional organisms, and which can be reformed only by working upon and through such organisms. The study of value-making institutions becomes then the principal means of arriving at practical truth. It seems clear that such a character belongs to the pecuniary values of the present time.

The market (meaning by this the system of pecuniary transactions regarded as one organic whole) is as much an institution as the state or the church, which indeed it somewhat overshadows in modern life. I mean that it is a vast and complicated social system, rooted in the past, though grown enormously in recent times, wielding incalculable prestige, and, though manned by individuals like other institutions, by no means to be understood from a merely individual point of view. It would be as reasonable to attempt to explain the theology of St. Thomas Aquinas, or the Institutes of Calvin, by the immediate working of religious instinct as to explain the market values of the present time by the immediate working of natural wants.

This is one of many points of view from which we may see the insufficiency of the usual treatment of the value-making process in treatises of political economy. This treatment starts with demand as a datum, assuming that each individual has made up his mind what he wants and how much he wants it. There is seldom, I believe, any serious attempt to go back of this, it being assumed, apparently, that these wants spring from the inscrutable depths of the private mind. At any rate it has not been customary to recognize that they are the expression of an institutional development. From most of the standard works the student would get the impression that if institutions and classes exist at all they have nothing to do with valuation.

The truth, I suppose, is that the idea of institutions, classes, and the like as organic forms or processes having a significance and power not to be grasped from the standpoint of individuals or of general human nature is alien to the philosophy underlying orthodox economics, and hence difficult of assimilation with orthodox theory. So far as such ideas are recognized they are, I should say, rather patched on, than woven into, the original stuff of the garment.⁽³⁾ Economists, however, are latterly becoming aware of the somewhat obsolete character of the philosophy involved in the orthodox tradition.⁽⁴⁾

At any rate the result of the individualistic treatment of pecuniary value has been to saddle the whole institution the market upon human nature. Commercialism as we find it had to be explained, and as there was nothing else available poor human nature had to bear it. The simple formula, "The people want it, and the law of supply and demand does the rest," will explain anything. But if we allow ourselves to ask why the people want it, or just who the people are that want it, or why they can make their wants effective, we discover that we have everything to learn. The accepted economic treatment would seem to be equivalent to a renunciation of any attempt to understand the relation of value to society at large; or, in other words, of any attempt to understand value itself, since to understand a thing is to perceive its more important relations. I do not deny that the method of analysis in question has its very important uses, but if it is allowed to be the only method it becomes the source of the gravest errors.

Just what does it mean, from the individual's standpoint, when we say that the market, as a historical institution, is a main factor in values? Not merely that pre-existing individual estimates are summed up and equilibrated in accordance with the formulas of economic science, though this is one phase of the matter, but also that the individual estimates themselves are molded by the market, at first in a general way and then, in the process of price-making, drawn toward a somewhat

mechanical uniformity. The individual and the system act and react upon each other until, in most cases, they agree, somewhat as in fashion, in religious belief, and the like. The influence of the market is not secondary either in time or importance to that of the person; it is a continuous institution in which the individual lives and which is ever forming his ideas. The actual transactions are potent suggestions for new ones, and the actual transactions are the latest expressions of an institutional development in which class rule and a confused and one-sided commercialism have been chief factors. Thus the institution largely dictates the valuations which it afterward equilibrates. To neglect this and treat demand and supply as a summation of original individual estimates involves an inadequacy of the same nature as there would be in explaining fashion as due to a summation of individual ideas about dress. This would be true at a given instant, in fashion as in the market, but in the case of the former no one could fail to perceive how superficial, how delusive, such a method of treatment would be. This is obvious in the case of fashion because its changes are so rapid and conspicuous that we are compelled to notice them, and to see that the individual takes his ideas from the social current. The slower movement of ideas which determines our more stable wants is, however, of the same character, and the superficiality of treating it as originating in the individual is quite as great. It amounts to nothing less than ignoring the essential social factors in pecuniary value. The relation of the individual to the system is not essentially different in this case from what we may see in any institution. The ordinary man is a conformer; he lives in the institution and accepts its established valuations, but not without impressing some degree of individuality upon them. In this way we get our ideas and practices regarding religion, marriage, dress, and so on. So in pecuniary matters one accepts in a general way the current values but has a certain individuality in his choices which makes him to some extent a special factor in the market. There is no absolute conformity; we do everything a little differently from anyone else; but this does not prevent our being controlled, in a broad way, by the prevailing institutions. This is what the usual economic analysis ignores, or perhaps omits as beyond its proper range.

Along with this we have the phenomenon of nonconformity. Individuals of special natural endowment or unusual situation or both as is commonly the case depart widely from the type, and initiate new tendencies which, under favorable conditions, may grow, and modify or destroy the old type. These new movements are likely to derive more directly from human nature than the old, and it is commonly true, though not always, that nonconformity represents human-nature values in conflict with those that are more institutional. We can see this process at the present time in the church, in politics, and in the family. It is taking place no less in pecuniary relations, and our expenditure is being humanized as radically, perhaps, as anything else. Things that seemed indispensable twenty-five years ago no longer seem worth while, and claims unthought of then have become irresistible. What changes have come over the budget of the household, of philanthropy, of the state and the church, during this period!

One might say much on this topic, but it would amount simply to an exposition, in this field, of the general relation between institutions and human nature.

Without taking into account this life of the individual in the institution we can never do justice to the general sway of the market, as a historical organism, over society at large. It is, as I have suggested, a structure as imposing as the political state itself, filling the eye with the spectacle of established and unquestioned power and impressing its estimates upon every mind.

We have to recognize, then, not merely that pecuniary value is, in general, a social value which derives from the social development of the past, but that it is the outcome, more particularly, of a special phase of that development, namely, the comparatively recent growth of industry and business, including also the growth of consumption. This is the special institution from which, for better or worse, the pecuniary values of today draw their character, very much as ecclesiastical values draw theirs from the history of the church. The phenomena of any institution are molded in part by the general conditions of the time, but they are molded especially by their particular institutional antecedents, which may be somewhat incongruous with the more general conditions. If you attend a service of the Established Church you become aware of points of view which may seem to you, as a man of today, absurd and incomprehensible, except as you know something of their history. The same may very well be true in the pecuniary world, though we may not notice it because we are more used to it, because we are ourselves members of this church.

And the method of criticism, in the market as in the church, is to take as large a view of the institution as possible, discover in what respects it is failing to function adequately in the general life, and strive to bring about such changes as seem to be required.

It seems probable that the more we consider, in the light of an organic view of society, the practice

of discussing values apart from their institutional antecedents, the more sterile, except for somewhat narrowly technical purposes, this practice will appear. Certainly it should have but a secondary place in inquiries which seek to throw light upon ethics or social policy. It is, for example, but a frail basis for a theory of distribution. The latter I take to be essentially a historical and institutional phenomenon, economic technique being for the most part only a mechanism through which social organization expresses itself. I do not question the technical value of the current treatises on distribution which more or less cut it off from its roots in the social whole, but perhaps the time is coming for a treatment which takes technical economics for granted and elucidates the larger actualities of the question.

The principle that any social institution, and consequently any system of valuation, must be administered by a class, which will largely control its operation, is rather an obvious one. It was long overlooked, however, in political theory, at least in the theory of democracy, and is still overlooked, perhaps, in economic theory. At any rate it is a fact that pecuniary valuation is by no means the work of the whole people acting homogeneously, but is subject, very much like the analogous function in politics, to concentration in a class.

Class control is exercised mainly in two ways: through control or guidance of purchasing power, and so of the demand side of the market, and through the actual administration of the business system, which gives the class in possession command of the large personal (pecuniary) values incident to this function, and the opportunity to increase these by the use, direct and indirect, of their commanding position.⁽⁵⁾

The process of definite pecuniary valuation, the price-making function, is based upon "effective demand" or the offer of money for goods; perhaps we ought to say for consumer's goods, as the value of producers' goods may be regarded as secondary.⁽⁶⁾ It is, therefore, the immediate work of those who have money to spend. Just how far spending is concentrated in a class I cannot pretend to say, but judging from current estimates I suppose it would be no exaggeration to say that one-half of the purchasing power in an industrial community is exercised by one-fifth of the families.⁽⁷⁾ In this respect pecuniary value is, on the face of it, much more the work of a restricted class than political value, in determining which all voters are nominally equal. In either case, however, it would be most erroneous to suppose that value-making power can be measured in any such numerical way. There is always a psychological process of suggestion and discussion which works underneath the market transactions.

By virtue of this the power of the richer classes over values is far greater than that indicated by their relative expenditure. As people of leisure and presumptive refinement, they have prestige in forming those conventions by which expenditure is ruled. We see how cooks and shop girls dress in imitation of society women, and how clerks mortgage their houses to buy automobiles. It is in fact notorious that the expenditure of the poor follows the fashions of the rich, unless in matters of the most direct and urgent necessity, and in no small degree even in these.

If what has just been said is sound it would be necessary, in order to understand contemporary values, to investigate, historically and psychologically, the ideals, such as they are, now prevalent in the richer classes.⁽⁸⁾ It might be found, perhaps, that these are largely of two sorts: ideals proper to commercialism especially ideals of pecuniary power and of display as an evidence of rank and caste ideals taken over by the commercial aristocracy from an older order of society. Commercialism tends to fix attention rather on the acquisition than the use of wealth, and for ideals regarding the latter the successful class has fallen back upon the traditions, so well-knit and so attractive to the imagination, of a former hereditary aristocracy. We very inadequately realize, I imagine, how much our modes of thought, and hence our valuations, are dominated by English social ideals of the seventeenth and eighteenth centuries. We get these not only through the social prestige, continuous to our own day, of the English upper classes, but through history, literature, and art. Speaking roughly, the best European literature, and especially the best English literature, was produced under the dominance of an aristocratic class and is permeated with its ideals. Thus culture, even now, means in no small degree the absorption of these ideals.

They are, of course, in many respects high ideals, embracing conceptions of culture and of personal character and conduct which it would be a calamity to lose; and yet these are interwoven with the postulate of an upper class, enjoying of right an enormous preponderance of wealth and power, and living in an affluence suitable to its appointed station. Thus it happens that as a man acquires wealth he feels that it is becoming that his family should assert its right of membership in the upper class by a style of living that shall proclaim his opulence. He also feels, if he has in any degree assimilated

the finer part of the tradition, that a corresponding advance in culture would be becoming to him, but this is a thing by no means so readily purchased as material state; the general conditions are not favorable to it, and his efforts, if he makes any, are apt to be somewhat abortive.

Along with the preceding we have also a hopeful admixture of ideals which reflect the dawn of a truly democratic regime of lifeideals of the individual as existing for the whole, of power as justified only by public service, compunctions regarding the inequalities of wealth and opportunity, a lowly spirit in high places.

This sort of inquiry into the psychology of the upper class as a social organismhowever unimportant these suggestions may beappears to be indispensable if we are to form even an intelligent guess as to where we stand in the matter of valuation.

Coming now to the control over values incident to the administration of the business system, we note that the class in power, in spite of constant changes in its membership, is for many purposes a real historical organism acting collectively for its own aggrandizement. This collective action is for the most part unconscious, and comes about as the resultant of the striving of many individuals and small groups in the same general direction. We are all, especially in pecuniary matters, ready to join forces with those whose interest is parallel to our own: bankers unite to promote the banking interest, manufacturers form associations, and so on. The whole business world is a network of associations, formal and informal, which aim to further the pecuniary interest of the members. And while these groups, or members of the same group are often in competition with one another, this does not prevent a general parallelism of effort as regards matters which concern the interest of the business class as a whole. The larger the group the less conscious, as a rule, is its co-operation, but it is not necessarily less effective and it can hardly be denied that the capitalist-manager class, or whatever we may call the class ascendent in business, acts powerfully as a body in maintaining and increasing its advantages over other classes. Nothing else can result from the desire of each to get and keep all he can, and to exchange aid with others similarly inclined.⁽⁹⁾

When I say that the class is, for this purpose, a historical organism, I mean that its power, prestige, and methods come down from the past in a continuous development like other forms of social life. This would be the case even were individual membership in it quite free to everyone in proportion to his ability, for an open class, as we can see for instance in the case of a priesthood, may yet be full of a spirit and power derived from the past.

In fact, however, membership in the upper economic class is by no means open to all in proportion to natural ability, and the command it enjoys of lucrative opportunities contributes greatly to its ascendancy. It controls the actual administration of the market much as the political party in power used to control the offices, with the influence and patronage pertaining to themonly the ascendancy in the economic world, based largely on inherited wealth amid connections, is greater and more secure. The immediate effect of this is to enhance greatly the market value of the persons having access to the opportunities: they are enabled by their advantageous position to draw from the common store salaries, fees, and profits not at all explicable by natural ability alone. This effect is multiplied by the fact that limitation of the number of competitors gives an additional scarcity value to the services of the competent which may raise their price almost incredibly. Thus it is well known that during the period of rapid consolidation of the great industries enormous fees, amounting in some cases to millions, were paid to those who effected the consolidations. It may be that their services were worth the price; but in so far as this is the fact it can be explained only as an exorbitant scarcity value due to limitation of opportunity. No one will contend, I suppose, that the native ability required was of so transcendent a character as to get such a reward under open conditions. Evidently of the thousands who might have been competent to the service only a few were on hand with such training and connections as to make them actual competitors. And the same principle is quite generally required to explain the relatively large incomes of the class in power, including those of the more lucrative professions. They represent the value of good natural ability multiplied by opportunity factors.⁽¹⁰⁾

The fact usually urged in this connection, that these lucrative opportunities often fall to those who were not born in the upper class but have made their way into it by their own energy, is not very much to the point. It is not contended that our upper class is a closed caste, nor does it have to be in order to act as a whole, or to exercise a dominating and somewhat monopolistic influence over values. Though ill defined, not undemocratic in sentiment, and partly free from the hereditary character of European upper classes, it is yet a true historical successor of the latter, and dominates the weaker classes in much the same way as stronger classes have always done. Power is

concentrated about the functions of the dominant institutions, and the powerful class use it for their individual and class advantage. Surely one has only to open his eyes to see this. I doubt whether there is a city, village, or township in the country where there is not a group of men who constitute an upper class in this sense. There is, it seems to me, a growing feeling that class, which the prevalent economics has relegated to oblivion under some such category as "imperfect freedom of competition," is in fact at the very heart of our problem.

It seems, then, that pecuniary valuation is a social institution no less than the state or the church, and that its development must be studied not only on the impersonal side but also in the traditions and organisation of the class that chiefly administers it.

1. The conception of the general process of valuation underlying this and possible future papers is set forth in an article on "Valuation as a Social Process," *Psychological Bulletin*, December 15, 1912 (social psychology number).

2. In the article on "Valuation as a Social Process" referred to above.

3. They are recognized a great deal, and with the best results, by economists interested, as most are, in practical reforms.

4. I need hardly refer in this connection to Dr. B. M. Anderson's penetrating study of *Social Value*.

It is curious that although orthodox economics has mostly ignored the importance of institutional processes, its own history offers as good an illustration of this importance as could be desired. I mean that the spirit and underlying ideas of the science can be understood only as the product of a school of thought, of a special institutional development.

5. By calling these values "personal" I mean merely that they tend to enrich persons; their economic character is multifarious.

6. Production has a special institutional development of its own which I shall not attempt to discuss in this connection.

7. This guess is based on English and German statistics indicating that about one-tenth of the families enjoy one-half of the total income; also upon the assumption that the proportion of saving in the richer class is greater and that of expenditure less, so that it might require one-fifth of the families to embrace half of the latter.

8. In this connection the reader will of course recall the work of Professor Veblen along this line.

9. Perhaps I may be allowed to refer in this connection to the more extended, though inadequate, treatment of classes in my *Social Organization*.

10. For a very strong statement by a conservative economist of the power of class over opportunities and personal values, I may refer to the treatment of the subject by Professor Seager in his *Introduction to Economics*, §138. I should not estimate the difficulty of passing class lines quite so high as he does.

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