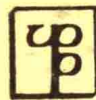


MODERN ECONOMIC THOUGHT

Edited by
SIDNEY WEINTRAUB



UNIVERSITY OF PENNSYLVANIA PRESS
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ECONOMIC
THOUGHT

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“In matters of philosophy and science authority has ever been the great opponent of truth. A despotic calm is usually the triumph of error. In the republic of the sciences sedition and even anarchy are beneficial in the long run to the greatest happiness of the greatest number.”

William Stanley Jevons, *The Theory of Political Economy* (1871; 5th ed., reprint, New York: Augustus M. Kelley, 1965), pp. 275–76.

Preface

For many years I taught a graduate course on recent developments in economics. The course featured new monographs or journal articles which had not yet filtered into the standard curriculum. Ultimately, I had planned to organize the cumulating notes into a critical survey of the analytical trends. After ceasing to offer the course nearly a decade ago, I prepared to sift through my earlier preoccupation with the ideas and to sort out the content of the evolving specialization.

Sole authorship would at least provide a unified evaluation, for better or worse. Health considerations, however, compelled me to abandon the design of an individualized product. When it became apparent that I could not fulfill my contract, Director Robert Irwin and associate John McGuigan of the University of Pennsylvania Press readily consented that I act as editor of a collection of papers covering roughly the topics contemplated in the original prospectus.

This was the genesis of the invited papers in this volume. As I read the chapters submitted, I confess that my tempered expectations were surpassed: a number of essays constitute eminent contributions. They transcend mere evaluation of the existing state of the art. I think the reader will benefit from an end product superior to what any one individual might practically accomplish in a discipline that has produced so massive a literature over the last quarter-century. As one who once had the energies to read, or at least to scan almost everything in the major economic journals and monographs, I shudder at the overwhelming task that faces the most dedicated and omnivorous reader in this day, when professional output overwhelms even the most insatiable curiosity and exhausts the keenest sense of intellectual obligation and devotion. We can only sympathize with the formidable toils of our academic successors who must try to stay current while peering back at forerunners.

I have also taught a fairly standard graduate course in the history of economic thought, adhering to the rule that the students must read the original works of the eminent authors of the longer past. In correspondence with the participants in this volume, I observed that such courses (by late cramming) barely completed Marshall, and then

applied a quick porous brush to touch mostly fragments of the subsequent period. Clearly, the history of ideas has suffered sharp discounting in contemporary technique-centered Ph. D. programs.

Over eighty-five years have elapsed since Marshall wrote. The time span is approximately that between Say (or early Malthus)—and pre-Ricardo—and Marshall. In that earlier epoch, with only a handful of specialists, economics underwent a profound evolution from the “radical” doctrines of Adam Smith to the rigors of Ricardo, through the Senior and Mill “refinements,” to the revolutionary volte-face of Marx, into the marginal utility uprising, and finally into the more placid and expansive neoclassical synthesis of Marshall.

Replacing calendar time with functional time—a Marshallian residue—we have since his day traveled a second century in economic thought. The years since 1950 reveal an acceleration principle, measured in terms of quantity, and maybe public acceptance—if not always esteem—of economics as a concerted discipline. Economists have become identified as specialists with expertise in studies affecting the daily life of mankind—on this Marshall and surely Marx had a shrewd sense of what they were about in their writing. Marshall’s very first chapter ventured the thought that through the study of economics poverty might be alleviated. The perception is old, and the problem is still acute and current, though perhaps with less of a pervasive sense of grinding futility in the affluent developed economies than in the economies of his day.

As editor of this volume, I usually took the occasion to sketch what I thought was the appropriate coverage, beyond the obvious thoughts implicit in the assigned chapter title. Invariably my instructions were minimal; there was no need to pretend to lead when the authors were identifiable masters of the terrain. I quote a few passages from my original statement of contents, not to preserve a model of communication, but to enable the reader to gauge what was intended and to judge how well it has been realized:

In mind is as objective an assessment of the bulk-literature of the last quarter-century as economists, with predilections, can provide. The purpose is not advocacy but exposition. The chapter titles indicate that I am seeking to include views of major groupings of economists; this is the educational objective. Too, the collection is aimed toward students who will have had at least an intermediate economics course; I suggest the math-content be held to an elementary level (in most chapters), with short proofs relegated to footnotes, longer ones . . . referred to other sources.

Chapters are to run about 6,000 words. . . . To repeat, the writing is directed to students, not specialists.

I then offered this thought:

Suppose you were asked to lecture on the assigned subject just next week at your university. What would be the significant themes that you would want to convey to students so that they could apprehend the modern directional tendencies? Where were we in about 1950? How did the current position evolve? Who? Unresolved issues?

I confess that this last statement was more of a tantalizing strategem to entice ready acceptance! Of course, in the execution it is certain that more time was expended than most of us customarily allot to a weekly lecture, yet the statement at least conveys the flavor projected for the volume. As I read it, I think that teachers, and students, will generally concede that it fulfills the educational intent. Considering my own views on many of the subjects, I hope it will also be said that, within reasonable bounds of tolerance, I have tried to be fair over all, to incorporate under most headings the dominant "schools" conveying the salients from which economists approach the particular subjects. If I have indulged myself in some of the introductions I appeal to the charity of the reader, with the reminder that I once wanted to write the full volume.

Obviously, the volume is topic-organized rather than calendar-ordered. Histories of thought, to be sure, are usually author-oriented. But this format would not serve what I had in mind. In the opening chapters it seemed appropriate to adopt a chronological setting for the drama before the climactic burst into modernity from about 1950 on.

Beyond charting some directions of ongoing work in major theoretical areas, the bibliographical references offer guidance to students, and perhaps to new teachers, for additional reading. Most of the chapters are self-contained in the sense that they can be read without reliance on a previous chapter. Obviously, insofar as economics is unified, the whole is a connected piece. Generally, use of the volume need not abide by the chapter pattern that I thought best to pursue in organizing the book.

It remains my pleasant task to thank all the contributors for their congenial partnership. Their competence made my task quite easy. I occasionally offered some constructive comments, or a word or a phrase which they were free to accept or reject. There were no unpleasant moments; quite the contrary. The entire experience was thus pleasurable and rewarding, to me at least. Maybe this is the supreme accomplishment, demonstrating that thirty one economists of diverse views can work harmoniously together toward a common education purpose—and deadline.

I am indebted to John McGuigan for facilitating correspondence

and always lending a sympathetic hand. Also to the Press editor, Miss Sandra Dechert, for her efficient amiability.

I have used, as a reminder rather than a dedication, a passage from that true intellectual "revolutionary," William Stanley Jevons. Though I might today regard him as slightly "wrong-headed"—as he described Ricardo—his words still have a zing of vitality, especially in this conformist era when economists too often lean on "authority" to shape their views. Currently, when our subject is vulnerable to attack for failing to grapple with serious problems, Jevons' message stays apt. More than ever we need the dissenters, rather than the submissive disciples of self-anointed Pollyannas who suggest that all is well.

I would prefer to inscribe a dedication to those evocative and discerning free spirits, Joan Robinson and J. K. Galbraith. They should detect an appreciation in the passage selected from Jevons. I am an unreserved admirer of their individual and independent efforts to release economics from the boring litany of in-house infallibility too often arrogated by establishment figures who stifle any innovative ideas which contradict their "model" blunders.

My colleagues in this volume will not all share this view. Yet as editor, I have availed myself of the first word. Their innings follow.

September 1976

SIDNEY WEINTRAUB

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I

From Marshall to Modernity

Introduction

In the beginning, as the monologist scanning the slide would say, there was Marshall. Alfred Marshall occupied the heights of the late Victorian economics to the end of World War I as firmly as Ricardo had been encamped between about 1820 and 1850, and as Keynes cornered the post-World War II period. To be sure, there were delicate finishing touches to the opinions of the masters, and there were rebellious streams. In the Marshallian age the pragmatic American empirical school made the deepest penetration, with the exemplary statistical studies of the disequilibrium cyclical economy under the skillful literary and technical wisdom of Wesley Clair Mitchell. Sustenance also came from the iconoclastic vim, overladen with a liberal dose of sarcasm, which flowed from the gifted pen of Thorstein Veblen, supported by the philosophic overtones of John Dewey. Historical and descriptive appraisals emerged from that other branch of American realism, namely the Institutionalists, who may even again, on a new set of issues, be poised to launch a new assault on irrelevant theorizing. The earlier aversion to rigid and outdated theorizing drew some of its inspiration from the ascendant German Historical school of the Hohenzollern empire.

Professor Ingrid Rima, in an essay severely constrained by space limitations—for this period is not the focal subject of this volume—recounts some of the work that followed Marshall's great *Principles*. In England there were the mostly orthodox Marshall seminarians, led by Pigou but also including Hawtrey (with an individualistic monetary slant) and Lavington. Sir Sydney J. Chapman's condensed *Outlines of Political Economy* (London: Longmans, Green, 1917) made classroom study of Marshall more relaxed. Frank Taussig, with Carver and Bullock at Harvard, E. R. A. Seligman at Columbia in public finance, and Keynes himself, were mainly Marshallian offshoots of varying competence. In statistical studies, in history, and on labor markets, there were Bowley, Clapham, and the more institutionalist Sargent Florence in England. Too, there was that under-valued liberal skeptic John A. Hobson, and the "majority of one," Edwin Cannan, a student of economic thought and a hard-headed analyst in money and

wealth. The Reverend Wicksteed commanded more perfunctory attention than. The most probing analytic mind in the United States belonged to Frank H. Knight, probably the founding father of the modern Chicago School—or at least present at its birth—though Knight was both too modest, and too independent, to belong to any movement, no matter how kind it was to him. A pervasive American figure, too, was that true theoretical genius, often eccentric but incomparably original and penetrating, Irving Fisher. The scales must balance well in registering his virtues.

An individual, now more obscure, whose stout work on the ubiquitous nature of the price system in almost all human activity, ramifying beyond the usual interpretation of economics, was Herbert Davenport; he is only infrequently read and only rarely remembered today. The rich theoretical textbook by Fred Taylor can also be placed in the same category.

Professor Rima looks beyond the American scene to comment on European writers, in Germany, Austria, Italy, and on those eminent Swedish economists, the immortal Knut Wicksell and, in his day, the more popular Gustav Cassell. In the 1930s—so long ago?—the textbook choice in “advanced” economics courses often settled down to Marshall or Cassell.

Professor Rima has attached to her chapter a bibliographical list which should serve the student amply for extra reading, furnishing leads for the unsated curiosity on the undercurrent of ferment beneath the calm exterior of neoclassicism.

Emeritus Professor G. L. S. Shackle traces the New Tracks to modernity. To Shackle belongs the distinction not only of christening the period “The Years of High Theory,” but also of serving as our most knowledgeable guide and raconteur for the contemporary reader. This was the formative period of Professor Shackle’s own education, during which he fashioned an incisive contribution to the exciting pre-1940 discussion. Since then, with a singular dexterity, he has sought to persuade economists buried in stationary or steady growth models of “perfect foresight” excluding uncertainty—the curious assumptions guaranteeing analytic stultification—of the spurious vitality of their illusory analyses. Several of Shackle’s writings belong to the small shelf reserved for modern classics, comprising indispensable reading for an understanding of the operations of an economy in which anticipations dominate conduct, in which the expectations have an elusive vagueness, an unsureness, and thus an uncertainty in decision-making that escapes model-builders, who graft ill-fitting mathematical probability concepts onto essentially unique and nonrepetitive events.

I suspect all readers will be indebted to Professor Shackle for reviv-