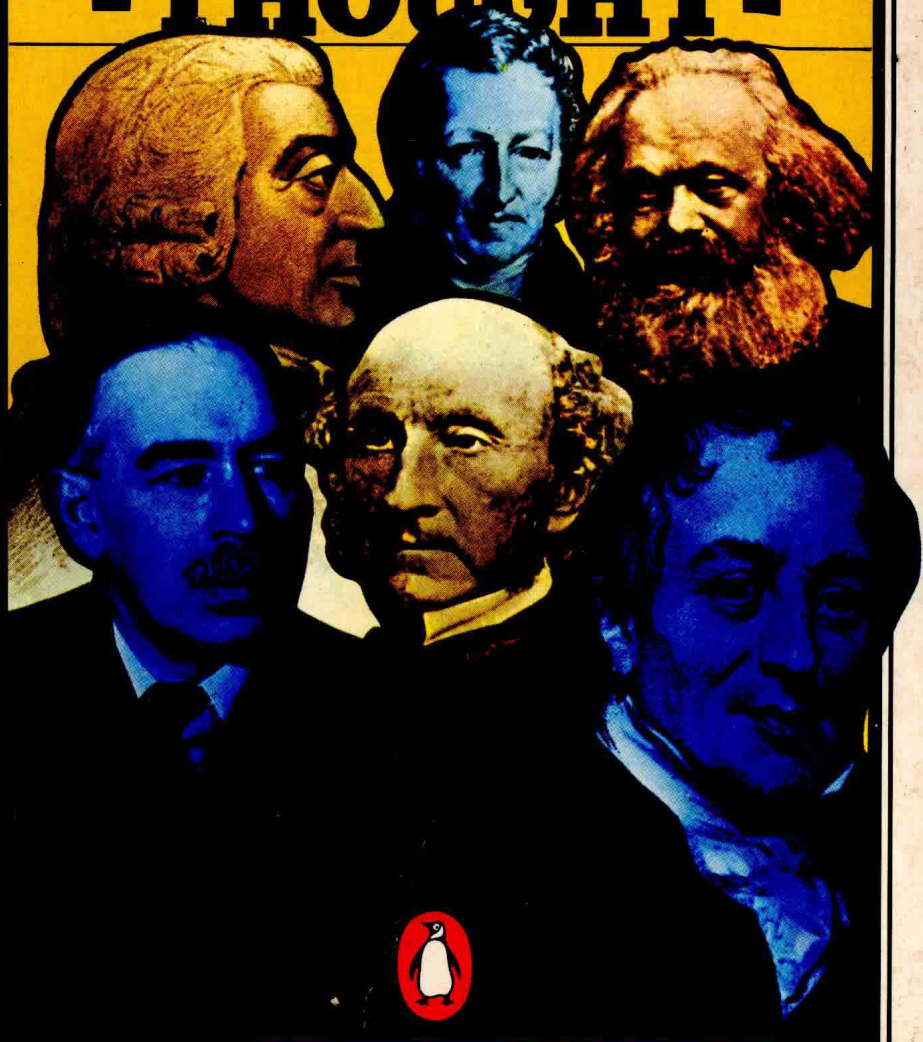


- A HISTORY - OF ECONOMIC - THOUGHT -



AM J. BARBER

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A HISTORY OF ECONOMIC THOUGHT

William J. Barber is the Andrews Professor of Economics at Wesleyan University, Middletown, Connecticut. Born in 1925, he was educated at Harvard and then at Oxford, where he was a Rhodes Scholar at Balliol College. After graduating with First Class Honours in Philosophy, Politics and Economics, he studied at Nuffield College, Oxford, and in 1956 he became a lecturer in economics at Balliol. He was awarded his Ph.D. in 1957, and since then he has taught at Wesleyan University.

Professor Barber has a long-standing interest in economic theory, the history of economic thought, and the application of economic analysis to policy making. His writings include *The Economy of British Central Africa* (1961), *British Economic Thought and India, 1800-1858* (1975), *From New Era to New Deal: Herbert Hoover, the Economists and American Economic Policy, 1921-1933* (1985), and he was editor and principal author of *Breaking the Academic Mould: Economists and American Higher Learning in the Nineteenth Century* (1988). He contributed to *Asian Drama: An Inquiry into the Poverty of Nations* (directed by Gunnar Myrdal) and to the Brookings Institution's studies of wage-price policy and energy policy in the United States. In 1989-90, he served as president of the History of Economics Society.

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W. J. B.

Prefatory Note

THIS study deals with the development of systematic economic ideas. It is not, however, intended as an inventory of the noteworthy contributions to economic discourse recorded throughout history. Nor, for that matter, does it purport to deal exhaustively with the thought of those writers whose works are discussed. Its objective is at once more limited and more ambitious: to inspect the properties of four distinct modes of economic reasoning developed in the past two centuries by considering the writings of representative contributors to these traditions.

Despite its ruthless selectivity, this procedure has much to recommend it. Each of the intellectual systems to be examined – i.e., those of classical, Marxian, neo-classical, and Keynesian thought – yield different insights into the nature of the economic universe and into the ways in which men can most effectively come to grips with it. The ideas they contain have long outlived their authors and have been adapted to deal with problems quite different from the ones which first prompted their formulation. Investigation of the properties of the major theoretical systems devised in the past thus has a perpetual relevance. Few things on this earth approach immortality so closely as a logically taut set of economic ideas.

The programme sketched above will, it is hoped, make a useful contribution to the reader's appreciation of the nature and significance of the main analytical systems offered by the rich literature of economic theory. But it can provide no more than a beginning. Those who seek a fully satisfying grasp of economic analysis should grapple with its great minds at first hand. If this study can spur some of its readers to explore the classic works of economic theory in depth, its author will have been well rewarded.

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WHY should the history of economics be studied? A sceptic could marshal at least a superficially impressive array of arguments for assigning to any work of economic theory on which the copyright had expired the treatment Hume recommended for treatises on metaphysics: that they be 'consigned to the flames'. Indeed, supporters of this position might be prepared to argue that the writings of dead economists are the repositories of outmoded doctrine, best forgotten lest error be perpetuated.

This line of challenge to historical studies is not limited to the discipline of economics. James Bryant Conant dealt with a similar problem when, as President of Harvard, he taught a course in the history of science. He did so, he confessed, with certain misgivings. If he succeeded in conveying to students how intelligent men could once support the theory of phlogiston with conviction, he might be doing a disservice to budding scientists. In this case he judged the gains from alerting the younger generation to their intellectual heritage to be more than sufficient to offset such risks.

A less militant challenge to the serious study of the past is now perhaps more pervasive. It can be plausibly argued that the concerns of the present call for all our intellectual energies and more. Resuscitating old works, though not necessarily harmful in itself, can be regarded as an expensive luxury. Whatever the intrinsic interest of the subject matter, it can be maintained that its systematic pursuit constitutes a misallocation of resources. It does not necessarily follow from this view that complete neglect of older theories is recommended. Certain proponents of this position would justify a place for the

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history of economic theory on the grounds that promising students can cut their teeth by exposing the errors of their ancestors.

One need neither venerate earlier economists nor be blind to their shortcomings to feel less than satisfied with this rationale for re-reading them. Such an attitude toward their work easily lends itself to caricatures of their thought and does less than justice to the analytical subtlety of the pioneers. And it may have another unfortunate effect. By implication, modern theories are treated as superior for all purposes to those worked out earlier. Economic analysis, to be sure, has made striking advances in the course of its evolution, particularly over the past two centuries. But to approach the literature that has contributed to this progress in a mood of self-congratulation imputes to current wisdom a quality of universal truth that does not augur well for the prospects for continued theoretical progress.

A strong case for perpetuating the historical study of economic thought can be made on humanistic grounds. Contact with the intellectual giants of the past yields its own rewards. The pure intellectual enjoyment it affords – as well as its capacity to liberate the imagination from the parochialism of our own time and place – requires no justification. This argument may be unanswerable. But, to a pragmatically-minded age, it is unlikely to be entirely convincing. Happily, explorations of older theoretical systems have more to offer to those for whom relevance to the present is an over-riding consideration. Many ideas of the past, for good or ill, live on and with consequences that touch the lives of all of us. The most distinguished economist of this century had this point in mind when he wrote:

... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually

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the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.*

A fuller appreciation of the modern world and of the ideas that have contributed to its shaping is not, however, the only practical dividend accruing from reflection on theoretical systems of the past. Anyone who seeks to penetrate beneath the surface of complex economic events requires a frame of reference within which the flux of economic life can be reduced to manageable proportions. Only with the aid of such an organizing framework can the world we observe be made intelligible. Otherwise, we lack a criterion for isolating the important from the unimportant influences on economic events.

The way in which this essential operation is usually performed draws on the technique of building up an abstract picture of an economic system – or a ‘model’ – designed to indicate the inter-relationships between its various components. In the present division of labour, this job usually falls to professional economists. It can be done by others, and at earlier moments in history the concerned amateur often undertook it. Not all of the ‘models’ guiding thought are, of course, explicitly articulated. Many widely held views on the nature of the economic system and its potentialities and limitations are shaped by less self-conscious and more implicit processes. Nevertheless, it is helpful to all concerned when the organizing theoretical framework is clearly articulated. The findings can then most readily be tested and debated and in this form they can be most easily communicated. At least in democratic societies, the social significance of theoretical inquiries largely depends upon the extent to which their insights can be transmitted to a public audience. For this reason, the more we all know

* John Maynard Keynes, *The General Theory of Employment, Interest and Money* (Macmillan, London, 1949), p. 383.

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about the properties of analytical systems employed by economists, the more intelligent our judgements on matters of policy are likely to be.

While economists – both of the past and the present – have been engaged in a common venture in which the public also participates, their efforts have produced a variety of analytical systems. In part the differences between these systems are related to the diversity of institutional conditions to which their formulators addressed themselves. But another matter deserves a prominent place in an interpretation of the various types of analytical structures – the differing purposes each of the major systems was constructed to serve. One should not expect theoretical systems designed primarily to throw light on the causes and consequences of economic growth over a prolonged period, or on the short-period allocative properties of a market system, or on problems of unemployment and inflation, to yield identical perspectives. And indeed they do not. One of the fundamental sources of differentiation between the main families of ideas in economics is to be found in the differing themes around which they were originally organized and which, in turn, moulded the categories used to fill out the analytical structure.

Two analogies may be helpful in conveying the significance of this point. The theoretical constructs supplied by economic theorists are often characterized as sets of tools. But the tools contained in these conceptual kits – like those in tool boxes of the tangible variety – are not cut to identical specifications. Instead, their shaping is influenced by the dimensions of the job they are expected to perform. Tools useful for dealing with certain problems often fail to provide the leverage needed for others.

The operations of an economic theorist may also be likened, in an important respect, to those of a professional photographer. Both are engaged in producing images of reality, but neither can depict reality in its full complexity. Nor would they be doing their job if they did so.

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Their task is to capture the essential quality of their subject and thereby to offer insights that the casual observer might otherwise miss. Moreover, in both cases the images conveyed depend on the observer as well as his field of observation. What a camera records, for example, is determined by the direction in which it is aimed, by the focal length setting and by the lens opening. In similar fashion analytical systems in economics sharpen our insights into certain features of the real world, but blur others that lie beyond their central focus. No single system, in other words, can do everything. Indeed, its strengths and weaknesses are the reverse sides of the same coin.

This attribute of theoretical constructions in economics provides a further justification for revisiting the literature of the past. If economists had always aimed at identical targets we would probably be justified – for all practical purposes – in restricting our attention to their most recent findings. But, in fact, this has not been the case. At different moments in time, economists have forged their tools with quite different ends in view.

In the history of economic ideas four major analytical traditions – the classical, Marxian, neo-classical, and Keynesian – stand out. Each was organized around a different set of questions. The circumstances that spurred their formulation have been considerably altered by subsequent events. Nevertheless, many of the central questions on which the pioneer formulators of these ‘master models’ focused are re-asked at later moments in time. When this occurs, we again encounter the theoretical problems with which they wrestled. The study of these systems thus has a perpetual relevance. The more we know about their capabilities and their limitations, the better equipped we are to deal with similar questions when we re-open them.