

SIXTH EDITION

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Making
of
Economic
Society*

REVISED FOR THE 1980s

ROBERT L. HEILBRONER

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THE MAKING OF ECONOMIC SOCIETY

REVISED FOR THE 1980s

Robert L. Heilbroner

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Introduction

No one has to tell a student who is about to tackle his first economics course in the 1980s that the subject is of vital importance. Economics is no longer a mysterious aspect of the world, confined to the back sections of newspapers and newsmagazines—the sections we used to skip because they were so dull. It has become part of the headline fare of our day. Not since the Great Depression have economic problems been so insistent, so worrisome, so much a part of our everyday conversation. Inflation, unemployment, the stock market, the high price and short supplies of oil, the worrisome food situation—all these concerns have brought economics into the center of our lives. If there was ever a time when students actually *wanted* to learn about economic problems, it is today.

Nevertheless, as I write these words, caution plucks at my sleeve. Not so many years ago, when a preceding edition of this text was being written, the opening chapter began in a very different vein—"We Americans tend to think of ourselves as members of the richest society on earth"—after which the text went on to point out some of the seamier sides of American life, to which we paid too little attention. In those opening pages there was no mention of a ravaging inflation or a fear of oncoming deep recession, a stock market collapse, or a shortage of oil. *None of the pressing issues of our time were acute only a few years ago!*

This makes me wonder if the problems that will be in the headlines a few years from now will be those that seem most important as I write these pages. Perhaps three years hence we will be worrying about the economic plight of our cities more than we will be fretting about inflation. Perhaps we will be talking about automation rather than recession as the cause of unemployment. It is possible that the stock market may be dangerously high, or that oil will be coming out of our ears. Maybe we will even be so lucky as to have economics as a whole once again relegated to the back pages of the papers, to the immense satisfaction of everyone but economics professors.

It is perhaps disconcerting for a student to be told right off that the

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ability of economists to forecast the emergence of new problems is very poor. Yet our experience tells us that the economic crystal ball is very clouded and that the wisest thing to expect in the economy is the unexpected. I bring up this somewhat embarrassing state of affairs not to run down my profession, but to explain what our objectives should be in taking up the subject of economics. Of course we want to learn about the critical problems of the moment, and a student should emerge from his first course with a clearer understanding of some of our present problems than before he began. But a moment's reflection on the unforeseen twists and turns of the past tells us that we want something more than information about a specific set of issues. *What we want is a general understanding of the economic system in which we live*—an understanding that will throw light across a large enough range of matters to illumine the unexpected problems we will encounter tomorrow, as well as those we face at the moment.

How can we obtain such a lantern? One way is through the study of *economic theory*—that is, by learning about the problems of the day from a very generalized and abstract point of view. Economic theory is a powerful intellectual tool, and its mastery is indispensable for anyone who aspires to become an economist. Yet I am inclined to think that theory is best reserved for—and best understood by—those who have already gained a grasp of economics that smells more of the real world than the diagrams and equations we find in a standard economics text.

Then why not plunge directly into a study of the real world, learning about the main elements of economic life—giant corporations, labor unions, government? There is much to be said for a study of economic institutions as the first step to a thorough mastery of economics, but here too, I think something is missing without which the knowledge we gain will be less useful and flexible than we want.

The missing ingredient is a familiarity with the *history* of our economic society, a sense of how our dominant institutions came into being in the first place. Only from a standpoint of history can we see our institutions, and the problems they create, as part of the ongoing process of our economic life. Only from a point of view that places our present concerns as the outgrowth of the past can we hope to gain a perspective on the problems of the future that will emerge from those of today.

Hence we are off to a study of the present that necessarily begins in the past. For the next several chapters, we will be tracing the growth of our present-day society from its distant beginnings—not merely to rediscover our past, but to see our present-day economic structure in a new, and I hope revealing, light.

Only after we have learned something about the “making” of our economic society will we turn to a consideration of the issues that trouble us so much. But by that time, I think, we will already see that the study of economics does not stop at the present, nor at our shores. Our perspective

3 *Introduction*

on the evolution of economic systems and the succession of problems to which economics gives rise will lead us first to place America's problems in the context of the world's economic problems, and thereafter to try to place them in the context of the sweep of history itself.

But I have said enough by way of introduction. The merit and the interest of a historical approach to our economic problems will have to prove themselves in the pages to come. I do not promise that you will be expert economists when you are done, but I hope you will want to be.

Concepts, Words, and Questions

All the following chapters end with summaries of key concepts, to help you focus on the important propositions in that chapter; key words, to add to your vocabulary; and a few questions, to make you think out for yourself some of the main points at issue. This brief introductory chapter has no need for such a section, but this short note will alert you to the summary sections that you will be encountering in the work to come.

I

THE EMERGENCE
OF MODERN
ECONOMIC SOCIETY

1 *The Economic Problem*

Now that we have decided on our course of exploration, it would be convenient if we could immediately begin to examine our economic past. But not quite yet. Before we can retrace economic history, we need to know what economic history *is*. And that, in turn, requires us to take a moment to clarify what we mean by economics and by the economic problem itself.

The answer is not a complicated one. Economics is essentially the study of a process we find in all human societies—"the" economic problem is simply *the process of providing for the material well-being of society*. In its simplest terms, economics is the study of how man earns his daily bread.

This hardly seems like a particularly exciting subject for historical scrutiny. Indeed, when we look back over the pageant of what is usually called "history," the humble matter of bread hardly strikes the eye at all. Power and glory, faith and fanaticism, ideas and ideologies are the aspects of the human chronicle that crowd the pages of history books. If the simple quest for bread is a moving force in human destiny, it is well concealed behind what one philosopher historian has called "that history of international crime and mass murder which has been advertised as the history of mankind."¹

Yet, if mankind does not live by bread alone, it is obvious that it cannot live without bread. Like every other living thing, the human being must eat—the imperious first rule of continued existence. And this first prerequisite is less to be taken for granted than at first appears, for the human organism is not, in itself, a highly efficient mechanism for survival. From each hundred calories of food it consumes, it can deliver only about twenty calories of mechanical energy. On a decent diet, man can produce just about one horsepower-hour of work daily, and with that he must replenish his exhausted body. With what is left over, he is free to build a civilization.

As a result, in many countries, the sheer continuity of human existence is far from assured. In the vast continents of Asia and Africa, in the Near

¹ Karl Popper, *The Open Society and Its Enemies*, 3rd ed. (London: Routledge, 1957), II, 270.

8 Emergence of Modern Economic Society

East, even in some countries of South America, brute survival is the problem that stares humanity in the face. Millions of human beings have died of starvation or malnutrition in our present era, as countless hundreds of millions have died over the long past. Whole nations are acutely aware of what it means to face hunger as a condition of ordinary life; it has been said, for example, that a peasant in Bangladesh, from the day he is born to the day he dies, never knows what it is to have a full stomach. In many of the so-called underdeveloped nations, the life span of the average person is less than half of ours. Not many years ago, an Indian demographer made the chilling calculation that of one hundred Asian and one hundred American infants, more Americans would be alive at age sixty-five than Indians at age *five*! The statistics, not of life but of premature death throughout most of the world, are overwhelming and crushing.

THE INDIVIDUAL AND SOCIETY

Thus we can see that economic history must focus on the central problem of survival and on how man has solved that problem. For most Americans, this may make economics seem very remote. Few of us are conscious of anything resembling a life-or-death struggle for existence. That it might be possible for us to experience severe want, that we might ever know in our own bodies the pangs of hunger experienced by an Indian villager or a Bolivian peon is a thought nearly impossible for most of us to entertain seriously.

Short of a catastrophic war, it is highly unlikely that most of us ever will know the full meaning of the struggle for existence. Nonetheless, even in our prosperous and secure society, there remains, however unnoticed, an aspect of life's precariousness, a reminder of the underlying problem of survival. *This is our helplessness as economic individuals.*

For it is a curious fact that as we leave the most impoverished peoples of the world, where the human being with his too few calories scratches out for himself a bare subsistence, we find the economic insecurity of the individual many times multiplied. The solitary Eskimo, Bushman, Indonesian, Nigerian, left to his own devices, will survive a considerable time. Living close to the soil or to his animal prey, such an individual can sustain his own life, at least for a while, singlehandedly. With a community numbering only a few hundred, he can live indefinitely. Indeed, a considerable percentage of the human race today lives in precisely such fashion—in small, virtually self-contained peasant communities that provide for their own survival with a minimum of contact with the outside world. This large portion of mankind suffers great poverty, but it also knows a certain economic independence. If it did not, it would have been wiped out centuries ago.