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ROBERT
LEKACHMAN

A History of Economic Ideas



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Preface

Like any other substitute, a history of economic thought is inferior to the original. In this instance, "original" means nothing less than the best possible collection of significant, interesting, or, at happiest, significant *and* interesting writings of the men whose names are a roster of the landmarks in the development of economic ideas. Such a course is difficult, if only because not all economists write good English or fall into the hands of literate translators—an understatement of heroic dimensions. Few human beings can have written more abstrusely than Ricardo. Few philosophers could have split more hairs than Marx. Moreover, terminologies and literary conventions change so much that continual readjustment is the lot of the student who endeavors to follow the succession of names which flash across his intellectual horizon. It is much more than learning that in England "corn" means wheat and "maize" means corn and that a quarter is twenty-eight pounds. The student must grapple with strange problems and strange solutions as well as with strange language.

We cannot always do what is best. Libraries are restricted. Cheap, paper reprints of the economic classics do not cover the field. Worst of all, time is scant. Frequently, only a semester is available to cover the whole history of economic thought. With less excuse, even graduate schools occasionally profane the memory of their ancestors in this way. The justification for a

text in this subject is to be found in these unpleasant facts. But if such a book is to be usable, it should not be so long as to defeat some of the reasons for its existence. Designed to save time, summarize information, and compensate for inadequate libraries, it should be short and selective. Both of these virtues, if none other, I can claim for this book. In it, I have deliberately sought to say enough about the major figures to give students a fighting chance to carry away a coherent notion of each man's ideas. This has meant extensive quotation. I do not apologize for this practice, since the quotations act as a sample of each economist's characteristic mode of expressing himself. The corollary of this emphasis is ruthless pruning. Here my model has been Sir Alexander Gray, who boasted amiably of writing a history which had omitted the most names, rather than the more compendious volumes which serve justice by mentioning everybody.

I do not think that I have concealed either my preferences or my prejudices. While I have endeavored to describe all important schools and movements, my own heart belongs to economists who were aware of the outside world and anxious to do something sensible to improve it. In the nineteenth century, this preference no doubt explains my indulgence toward the English classical economists whose social tastes and practical remedies are not necessarily my own. Would not every right-minded intellectual of the twentieth century have wished to be a Philosophical Radical in the nineteenth? In the twentieth century, this preference dictates higher regard for Keynes than for the paladins of the indifference curve, and for Pigou than for the prophets of the new welfare economics.

This suggests what I hold to be true, that economics tries to be a pure science at the peril of barrenness and intellectual gamesmanship. Economics does its job best and commands most respect when economists concern themselves with the problems which afflict ordinary human beings. In the nineteenth century these problems included the regrettable tendency of the poor to multiply in number, soggy currencies, oppressive poverty, and narrow agricultural resources. Smith, Ricardo, Malthus, and

Mill did their best to understand and meet these social perplexities, even though their remedies occasionally appear odd or even horrifying. Much in the same way, Keynes in this century attacked the disasters of depression and underemployment. Partly in penance for these unscientific leanings, I have included two long chapters on the marginalists and several shorter chapters on various aspects of technical economics.

What I have so far said suggests a last observation. The history of my subject naturally organizes itself for me around men and problems rather than concepts and doctrines. Although it is perfectly possible to write a valuable book which traces value, rent, wages, and profits through the centuries, I have centered my attention upon men rather than abstractions. Since men breathe and worry, I have tried to say something about what the major economists were like as people, what problems agitated them, and how they responded to them.

ROBERT LEKACHMAN

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PART I

The Beginnings

Chapter 1

Greek and Roman Economics

THE ANCIENT WORLD

Frequently, historians of economic thought describe the economic notions of the ancient world with a certain amiable condescension composed in equal measure of scorn for their primitive characteristics and approval of their analytical prevision. By this approach, the historian of ideas runs the serious risk of parochialism, of arguing that since all history has struggled toward modern capitalism, and since economic theory is the explanation of contemporary capitalism, anything before our own time is imperfect as economic organization and incomplete at best as economic explanation. After all, it is undeniable that beside our sophisticated techniques the summary treatment of economic affairs by Plato and Aristotle appears sketchy and crude.

But we lose sight of the characteristic features of economic life in the fifth and fourth centuries before the Christian era if we leave it at that. Although the trading firm was not unknown in the ancient world, in the small city states of the period the representative unit of the economy was the household, the center of the productive economic activities we now handle through the market. Hence, Aristotle's emphasis upon the household envisaged a more important subject than that of consumption. Moreover, by far the bulk of activity in these states was agricultural. Fabrication of goods for sale and systematic trading of them by well-defined merchant classes, while important enough to merit serious discussion by contemporaries, were marginal and recent in the lives of these cities.

If free markets in commodities were rudimentary, free markets in labor scarcely existed. Although not all workers were slaves, and free men (the metics) carried on most trade, Plato and Aristotle took slavery for granted, defended it vigorously, and imagined no other basis of a civilized life. In place of our mobile worker, free to change jobs where his economic advantage dictates, there was the slave, fixed in abode and condition, sometimes a barbarian (as Greeks significantly termed the non-Greek), occasionally a fellow Hellene captured in war. The good life and the happy state of the philosophers rested squarely upon the menial labor of the bondsman. Naturally enough, Plato and Aristotle viewed his work with contempt. Manual labor was servile, suitable for the slave. Nor did the philosophers set much higher store upon moneymaking. The techniques of profit, said Plato, might "do us good, but we regard them as disagreeable; and no one would choose them for their own sakes, but only for the sake of some reward or result which flows from them."¹

We see the economics of Plato and Aristotle somewhat differently when we realize that what they were discussing above all was the good life, the just state, and the happy man. Since they were persuaded that externals—money and what money bought—created neither happiness nor wisdom, their analysis of economic life was only a small part of their treatment of the whole life of man in society. Perhaps this is only another way of saying that their conception of what we somewhat largely call the social sciences was different from ours, although not necessarily inferior to it. Separating economics from sociology and concentrating upon the study of each as a subsystem, we rationally emphasize exchange relationships in which the proximate goals of all parties are monetary and the larger questions of life are put aside. Possibly because the world was young and everything seemed possible, Plato and Aristotle sought a unified science of society, the object which a few contemporary social students also wistfully pursue.² Their economics then were embedded in the

¹ Plato, *The Republic*, in *The Dialogues of Plato*, translated by Benjamin Jowett, Random House, 1937, Vol. I, p. 621.

² See, for example, Talcott Parsons' *The Social System*, Free Press, 1951, and his later *Economy and Society*, Free Press, 1956.

institutional arrangements of the time and shaped by the philosophical aims of the analyst.

Under the circumstances, it is all the more striking that even from the narrower viewpoint of contemporary economics, Plato and Aristotle saw so many of the key concepts of eighteenth- and nineteenth-century discussion. The distinction between use value and exchange value, the functions of money, and the division of labor are among the insights which Plato or Aristotle employed. Perhaps they seem better economists in the twentieth century, in which social students are becoming discontented with the severe specialization of their subjects, than they did in the nineteenth, when that specialization seemed the only road to scientific progress.³

There is a last preliminary observation to be made. Plato and Aristotle were Athenians, and Athens, as all the world came to know, was something special in Greece and the world. It was special partly because philosophy, art, and scientific speculation reached peaks there which were laboriously reascended only after many centuries had elapsed. It was special, also, because of the Athenian individualism, the tendency of the Greek to think and act for himself—always excepting the bulk of the population who were slaves. Plato and Aristotle wrote in the days of Athenian decline and, though their speculations were formulated within the context of Athenian democracy, they were critical of and even hostile to that democracy. The state may have made fewer demands upon the citizen in Athens than elsewhere in the ancient world, but it was Socrates who conceded its right, acting through his fellow citizens, to put him to death and who therefore refused to escape from the prison where he lay waiting for the hemlock. We can guess that this incident among much else led to Plato's celebrated recommendation for the rule of cities:

Until philosophers are kings, or the kings and princes of this world have the spirit and power of philosophy, and political greatness and wisdom meet in one, and those commoner natures who pursue either to the exclusion of the other are compelled to stand

³ Extremely helpful on this subject is Karl Polanyi *et al.*, *Trade and Markets in the Early Empires*, Free Press, 1957, pp. 64-97.

aside, cities will never have rest from their evils—no, nor the human race, as I believe—and then only will this our state have a possibility of life and behold the light of day.⁴

PLATO (427–347 B.C.)

Plato's important economic ideas arose incidentally from his discussion of justice and the ideal state in the *Republic*. To an astonishing degree, his doctrine of the state depended upon the division of labor, and so did his conception of economic activity. Division of labor emerged from the natural differences among human beings, from the "diversities of nature among us which are adapted to different occupations."⁵ He proceeded in the same passage to draw a utilitarian moral: ". . . all things are produced more plentifully and easily and of a better quality when one man does one thing which is natural to him and does it at the right time, and leaves other things." No doubt, if Plato's interest had been primarily in the expansion of output and the increase of efficiency, he would have gone on to make Adam Smith's point that, because division of labor became more complex as the market widened, it was, therefore, a good thing to widen the market. But Plato's angle of vision was different. The ideal state should be big enough to allow appropriate scope for the play of each man's natural talent. At the center of the state's appropriate concern was human improvement rather than increased output. And it was fairly obvious that Plato considered a quite small state adequate to his purpose. If the state were larger and strained to acquire still additional territory, the cause was likely to have been a degenerate taste for luxury which compelled a more complex division of labor but failed to improve the quality of human existence.

Three major occupational categories inhabited the ideal state: rulers, soldiers, and workers. Again Plato appealed to natural specialization, as in this exhortation:

⁴ Plato, *op. cit.*, p. 737. Passage italicized in Jowett translation.

⁵ *Ibid.*, p. 633.

Citizens . . . you are brothers, yet God has framed you differently. Some of you have the power of command, and in the composition of these he has mingled gold, wherefore also they have the greatest honour; others he has made of silver, to be auxiliaries; others again who are to be husbandmen and craftsmen he has composed of brass and iron; and the species will generally be preserved in the children. But as all are of the same original stock, a golden parent will sometimes have a silver son, or a silver parent a golden son.⁶

In this beautiful language, Plato described a caste system in which very little circulation of individuals was to be expected. His ranking was significant. Top position naturally went to the philosophers as rulers; a middle position to the auxiliaries or soldiers; and at the bottom of the pyramid were the farmers and the artisans.

This derogation of economic activity and economic goals was reinforced by Plato's description of ideal property arrangements for each class. Only the lowest, farmers and artisans, were allowed to work for profit and accumulate property. Rulers and auxiliaries should have neither homes nor property of their own. Only if this were true, could they be expected to pursue truth and justice, now free of base economic goals.

Aware of the sharpness of class conflict in Athens, Plato sought to minimize its extent and intensity by assigning appropriate goals to each group. The pursuit of money by the base would not arouse the envy of wise rulers any more than the prudent exercise of power by the latter would antagonize artisans and farmers. "Any city, however small, is in fact divided into two, one the city of the poor, the other of the rich; these are at war with one another." Plato would have divided the city into three, but eliminated at the same time the causes of conflict, by dismissing money as a divisive force.

His argument against democracy was based upon his notion of the natural elite and the specialization of function. Ruling was a full-time job. It was disastrous to entrust government to men who spent the bulk of their days in commerce or agriculture.

⁶ *Ibid.*, pp. 679-680.

⁷ *Ibid.*, p. 685

But even if the husbandman devoted his full attention to governing, he would make but a poor job of it. Only a few, blessed by birth and nurtured by careful training, were capable of proper administration. The ideal state selected its rulers from the men of gold. More than that, it trained them and tested them before it entrusted authority to them. Never answered by Plato were the questions: Who tests the testers? Who selects the natural aristocrats? Who decides when a child born of silver parents is himself of gold?

ARISTOTLE (384–322 B.C.)

One of the pupils of Plato, Aristotle achieved unrivaled prestige, less perhaps in the ancient world than in medieval Europe, where he was frequently cited simply as the Philosopher. Encyclopedic in range, he wrote on economics as he did on other subjects, in the deliberate attempt to encompass all human knowledge. As followers of the films may know, Aristotle also, as tutor to Alexander the Great, had a direct opportunity to mold one of the world's great men. It illustrates the gap between life and philosophy to reflect how little Alexander's life was marked by the pursuit of that golden mean which his master preached. The *Politics* and the *Ethics* contain the bulk of Aristotle's economic comments. In tone, they are matter of fact and prosaic, in contrast to the poetry of Plato. Frequently Aristotle differed from Plato. Here we summarize his ideas on the state, property, value, and money.

THE STATE

The state, like the family and the village, "originates in the bare needs of life" and "continues in existence for the sake of a good life." Just as the state is a creation of nature, "man is by nature a political animal."⁸ Because men naturally herd together, the state is possible.

⁸ Aristotle, *Politics*, translated by Benjamin Jowett, Modern Library, 1942, p. 54.