

A BRIEF HISTORY *of* ECONOMICS



Artful Approaches To
The Dismal Science

E RAY CANTERBURY

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of
ECONOMICS

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The Dismal Science**

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PREFACE

This book is not simply an annotated roster of the Society of Dead Economists. As living economists grapple with modern economic problems and begin to alter their views, more and more readers are discovering a need for transitional books, books that bridge the gap between what economics has been and what it is becoming. *A Brief History of Economics: Artful Approaches to the Dismal Science* reflects this desire for a bridge over sometimes troubled waters.

Because the old masters of economics imagined with a broad social brush and used lively real-world examples, they are easier to understand than many modern writers, so I believe that this book is fully accessible to beginning readers in economics. At the other extreme, readers who approach this volume with a sophisticated understanding of economic theory but little, if any, exposure to the history of thought can now become acquainted with some of the most fascinating personalities of the ages. An inquiring mind is the only prerequisite.

Many concerns impinged on the decision to do *A Brief History of Economics*. First, I continue to perceive the need for a short introduction to economics that would be completely accessible to beginners but interesting to a lay audience. For the former, only

aerobically fit students can cart in the fullness of space the standard, beginning text to class. In the end, the beginner has mastered little more than a few unrelated basics (though perhaps enjoying somewhat better muscle tone). For the latter, I believe that a need exists for a completely up-to-date treatment of contemporary issues such as globalization, financial market bubbles, and economic inequalities missing from today's textbooks.

Second, the beginner's interest in economics has been waning roughly in proportion to the growth in the number and magnitude of society's economic problems. Beginners, I have found, can be seduced by a subject wrapped in the soft cloak of biographies of figures (Adam Smith, David Ricardo, Thomas Malthus, Jeremy Bentham, Karl Marx, Alfred Marshall, John Maynard Keynes, Joseph Schumpeter, Thorstein Veblen, Milton Freidman, John Kenneth Galbraith, and Robert Heilbroner) and the warm familiarity of history—of the Jazz Age, of the Great Depression, of Reaganomics, and so on.

Third, I would like to extend the good luck of past generations to those of the present. The great economists—yesterday's and today's—not only convey ideas lucidly, they do so with great force, elan, and more often than not, wonderful humor. The current generation of readers should not miss the masters.

As a beginning, I return to the founder, Adam Smith. A popular but misguided understanding of what Adam Smith wrote and meant has been diminished to the wearing of the Adam Smith necktie (filled with little cameos of Smith's profile) out of devotion only to free markets and to remarkably limited government. This tie that binds is a symbol devoid of true Smithian meaning, serving mostly to constrict blood vessels and guaranteeing insufficient circulation of blood to the brain. The purchase of an Adam Smith necktie is at once a rational commercial act and a revelation of dogma overwhelming reason. Adam Smith, a lecturer on Moral Philosophy at Glasgow, would have rejected both out of four-in-hand.

I would urge, even implore, not just the beginner, but the seasoned reader, to read Smith's *The Wealth of Nations*. It is brimming with

ideas, such as those to spill over from his colorful description of the pin factory to his famous passage: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." The latter is not only a great insight, but also great rhetoric, initially cast out of an alliteration of b's, continuing with the homely appeal to getting our dinner (rather than "optimizing consumer behavior"), and concluding with a mutually self-regarding sting.

To focus on pin factories and Adam Smith is to concern oneself with getting production started, igniting economic growth. It is the kind of concern faced today by Eastern Europe, the states of the former Soviet Union, and the developing nations. The mature industrialized nations generally are called "capitalistic," even though their ways of organizing production and distribution are contrary to the conventional caricature. The central problem of these nations, including even Japan, appears to be *too much* production and an *excess* of labor. The people in these nations, it would appear, are consuming as much as they desire, and yet their consumption is insufficient to fully employ themselves. This vulnerability of capitalism was noted many years ago by the great British economist, businessman and statesman—John Maynard Keynes.

He wrote:

Ancient Egypt was doubly fortunate and doubtless owed to this its fabled wealth, in that it possessed *two* activities, namely pyramid-building and the search for the precious metals, the fruits of which, since they could not serve the needs of man by being consumed, did not stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead are twice as good as one; but not so two railways from London to York.

In this brief paragraph, drawing upon his knowledge of history, Keynes is able to summarize in the last *half* sentence what has been lost to the modern economic world, and what had become a central defect of raw, uncivilized capitalism during the 1930s. Today, instead of railways, he might have written about the superfluity of 900-lane

parallel information superhighways carrying banal entertainment to netherlands.

Even with an information superhighway, it would be impossible to thank adequately all of those reviewers, readers, and friends who have contributed to this book. Over the years, John Kenneth Galbraith has faithfully read my manuscripts and, on this as well as many others, has been a source of inspiration and encouragement. His influence in these pages will be obvious. My dearly missed friend, the late Sidney Weintraub, provided thoughtful and meticulous comments on an early draft. Over time, another departed friend, Hyman Minsky, devoted considerable thought to and many suggestions for my discussions of finance and investment.

Inspirational friends and associates such as John Q. Adams and H. Peter Gray have served as wise and witty critics. Still another friend, the late Mancur Olson, provided valued reactions to my reading of his *Rise and Decline of Nations*. Not only did a book by Gerhard Mensch provide inspiration, but Gerhard provided insightful comments on manuscript material related to innovations and their effect on the economies of highly industrialized economies. For a few precious years at Florida State University, I had the pleasure of engaging in some remarkable dialogue with my friend Abba P. Lerner, one of the leading economists of the twentieth century. In a lucky and remarkable coincidence, Joan Robinson, another luminary, was reading some of my manuscripts at the time, parts of which now comprise my discussions on Keynesian economics. Abba proceeded to strike though many of Joan's comments with his abrupt, "She's wrong!," leaving me the awkward task of deciding, in those instances, what Keynes "really meant."

Such is the delicate responsibility of the historian—of anything. Just when we think we have made the final judgment, someone with great intelligence and authority creates doubt and raises questions. Being not quite sure about the past, we surely make forecasts with great temerity.

To reach its audience, a book must be published. For this, I am grateful to the uncommon support of David Sharp at World Scientific,

only for this volume but also for my *Wall Street Capitalism*. I am grateful for the careful and helpful reviews by Richard nan, Augustana College; Frances Bedell, Westark Community ege; Joseph Cairo, La Salle University; Michael Carroll, Colorado e University; and Richard N. Langlois, University of Connecticut. Quek at World Scientific worked magic with her meticulous ng.

inally, Carolyn, my partner in life, provided more good cheer than any author deserves and despite the magnitude of my gerated perception of what is merited.

E. Ray Canterbury

BRIEF CONTENTS

<i>Detailed Contents</i>	<i>vii</i>
<i>Preface</i>	<i>xiii</i>
Introduction	1
1 Feudalism and the Evolution of Economic Society	15
2 Adam Smith's Great Vision	39
3 Bentham and Malthus: The Hedonist and the "Pastor"	61
4 The Distribution of Income: Ricardo versus Malthus	79
5 The Cold Water of Poverty and the Heat of John Stuart Mill's Passions	93
6 Karl Marx	105
7 Alfred Marshall: The Great Victorian	121
8 Thorstein Veblen Takes on the American Captains of Industry	145
9 The Jazz Age: Aftermath of War and Prelude to Depression	175
10 John Maynard Keynes and the Great Depression	201
11 The Many Modern Keynesians	235
12 The Monetarists and the New Classicals Deepen the Counterrevolution	273
13 Economic Growth and Technology: Schumpeter and Capitalism's Motion	307
14 The Many Faces of Capitalism: Galbraith, Heilbroner, and the Institutionalists	331
15 The Rise of the Casino Economy	349
16 The Global Economy	383
17 Climbing the Economist's Mountain to High Theory	401
18 The Future of Economics	417
Glossary of Endurable Terms	429
Annotated Suggestions for Further Readings	441
Index	459

The Evaporation of Smithian Harmony	68
The Philosophical Radicals, Especially Jeremy Bentham	69
Thomas Malthus and the Population Bomb: A Flash for the Unenlightened	73
4 The Distribution of Income: Ricardo versus Malthus	79
David Ricardo, the Stockbroker-Economist	80
The Social Scene; Liberty, Fraternity, and Unequal Economic Classes	81
Ricardo Takes on the Mercantalists	84
Ricardo's Contributions	90
The Classical Legacy	92
5 The Cold Water of Poverty and the Heat of John Stuart Mill's Passions	93
Workers in the Real Industrial World	93
Charles Dickens Takes on Poverty, Factory Conditions, and the Classical Economists	95
John Stuart Mill: Somewhere Between Capitalism and Socialism	98
6 Karl Marx	105
Marx and His Soulmate, Engels	106
The Influence of Hegel	109
The Sting of Economic Alienation	110
The Marxian Economics System	111
Flaws in Marx's Vision	117
7 Alfred Marshall: The Great Victorian	121
Pleasure and Pain at the Margin	122
The Marginalists' Bridge	124
Marginalism and the Theory of Distribution	127
Marshall and the Neoclassical Niceties of Victorian England	128

Marshall's Contributions	132
Up Against Walrasian Equilibrium	135
The Great Influence of Alfred Marshall	138
8 Thorstein Veblen Takes on the American Captains of Industry	145
Horatio Alger and the Benign Universe	146
The Second Industrial Revolution	147
British Industry: The Sun Also Sets	150
The Rise of the Robber Barons	151
The Social Darwinists	154
Darwinism Revised: Veblen and the Institutionalists	159
The Neoclassical Ascendancy and Public Policy	166
A Notable Absence of Harmony	168
Veblen Passes into Legend	169
9 The Jazz Age: Aftermath of War and Prelude to Depression	175
The Edwardian Age and the Early Bloomsbury Years of John Maynard Keynes	175
Imperialism and the Russian Revolution of 1917	178
John Maynard Keynes at Versailles	185
The View From America	187
The Roaring Twenties	192
The First Mrs. Robinson, Mr. Chamberlin, and Nonprice Competition	196
10 John Maynard Keynes and the Great Depression	201
The Prelude to Disaster	202
The Speculative Bubble	203
The Great Crash	206
The Aftermath	207
The Depression of the 1930s	208
The Neoclassicals Address the Issues	210
Keynes's Academic Precursors	212

Keynes's Policy Suggestions	214
Primal Keynesianism and the Early New Deal	216
The Famous Keynesian Multiplier	219
Illusions and the National Income	221
Money and Uncertainty	223
Keynes, Harvard, and the Later New Deal Years	228
The Keynesian Revolution: Why?	229
Postscript and Prelude	230
Conclusions	232
11 The Many Modern Keynesians	235
World War II Transforms the Economy	236
The Fiscal Keynesians	238
The Neoclassical Keynesians	243
Saving Keynes's Theory	248
The Post Keynesians	250
The Income Distribution	251
The Price Markup and Inflation	256
Incomes Policy	259
Money and the Financing of Investment	261
Whither Economic Growth?	267
Conclusions	267
12 The Monetarists and the New Classicals Deepen the Counterrevolution	273
The Inflation-Unemployment Crisis of the 1970s	273
The Problems Inflation Raises	275
The Sources of Inflation	276
The Modern Quantity Theory of Money	277
The Friedmanian Phillips Curve	284
Friedmanian Prediction for Inflation	285
Monetarism and the Great Depression	286
The New Classicals	287
The Rational Expectations Game	289
The Natural Rate of Unemployment and Output	290

New Classical Economic Policy	295
Rational Expectations and the Real World	297
The New Classicals and Depressions	299
The Real Business Cycle	301
Conclusions	303
13 Economic Growth and Technology: Schumpeter and Capitalism's Motion	307
Post Keynesian Economic Growth Theory	308
The Neoclassical Growth Theory	309
The Problem With Historical Economic Growth	311
Joseph Alois Schumpeter	313
Schumpeter's Theory of Capitalist Motion	316
The Product Cycle: Schumpeter Extended	320
Innovations and the Product Cycle	323
Stagnation and Stagflation: The Long View	325
14 The Many Faces of Capitalism: Galbraith, Heilbroner, and the Institutionalists	331
The Institutional Vista	332
Robert Heilbroner and the Worldly Philosophy	334
Capitalism: Heilbroner's Vision	335
John Kenneth Galbraith: An Introduction	337
Galbraith's General Theory of Advanced Development	339
Conclusions	345
15 The Rise of the Casino Economy	349
The Federal Reserve's Experiment with Friedman's Monetarism, 1979–1982	350
Supply-side Economics	352
The Sequel	356
Casino Capitalism	359
The Growing Inequality During the 1980s	369
A Net Worth Perspective: Where the Money Went	371

Clintonomics: Continuity With the Federal Reserve	372
The Clinton Legacy: Ending the Progressive Agenda	377
Conclusions	378
16 The Global Economy	383
Globalization and the Growth of Multinational Corporations	384
The International Product S-Curve	385
Trade Deficits and Full-time Jobs in the USA	390
Downsizing American Labor	393
The Globalization of Debt and Financial Fragility	396
Downsizing the Middle Class at the Millennium	397
Conclusions	399
17 Climbing the Economist's Mountain to High Theory	401
The Evolution of Economics	401
High Theory and Its Version of General Equilibrium	402
Input-Output and Price Mark-ups: An Alternative View of Interdependent Industries	407
Choosing Between Equilibria Avenues: A Critical Path	411
18 The Future of Economics	417
The Quest for "Radical" Alternatives	417
The Keynesian Challenge	418
From the Old to the New Economy: It's a Long Wave	421
Political Economy, Again	424
The Voice of the Masters	426
<i>Glossary of Endurable Terms</i>	429
<i>Annotated Suggestions for Further Readings</i>	441
<i>Index</i>	459

INTRODUCTION

Like airplane pilots, economists have used various approaches. Not surprisingly, some approaches to the history of their field have been less successful than others. Whether it be aeronautics or economics, we encounter boundaries or limits. Not knowing the limits of economics is like a pilot not knowing the constraints of gravity.

We want to know more than simply how narrowly an Adam Smith missed some ethereal runway. After all, the ideas of the great economists have enormous influence on societies and at the same time are molded by the cultural milieu that nurtured them. This interdependence comprises my central theme. Such is the true nature of economic literacy, something for which all citizens should aspire. If we are to place an Adam Smith or a John Maynard Keynes within his historical and intellectual context, we need to know what questions were important to him.

What led Karl Marx to think the contradictions of capitalism would lead to a fatal crash? Why was Thorstein Veblen so disturbed by the behavior of business managers as to want to restructure industry around engineers? As important as pure analytics, mathematics, and statistics are, if we know *only* the tools of the trade, we will be unable to know the place of economics within the broader community of

ideas, much less be able to explain it to the uninitiated. We will be unable to engage in the rhetoric of the intellect.

We want to soar out of the narrow valley of rational reconstruction¹ to survey a wider horizon. A broader approach invites readers to range across the neighboring fields of history, philosophy, mathematics, politics, natural science, and literature. It allows us to place the great economists right where we want them, in their times.

We can then recognize what Adam Smith owed to Isaac Newton and Locke, and what Charles Darwin owed to Thomas Malthus. We can see the dilemmas of the Great Depression of the 1930s reflected in the writings not only of J.M. Keynes but of John Steinbeck and John Dos Passos. In F. Scott Fitzgerald's *The Great Gatsby*, we can find reflections of Veblen's influence and comprehend conspicuous consumption.

Making such connections does more than satisfy one's intellectual curiosity (though that is a very good reason, of itself). Historical perspective puts the lie to any claim that economics always is a progressive science—operating, like nuclear physics, outside time and in pursuit of eternal verities. Eternity is a very long time; yet, in the briefness of social history, communities have experienced many different economic systems. Even capitalism has bloomed as many species, its most elemental taking six millennium of recorded history to bud. Through the history of economics we can see economic ideas unfold, forcing us to broaden our vision—be more reflective, more thoughtful.

One way of being sure to hit the runway is to make it wider.

History is basic to the study of ideas. We cannot recognize truly new ideas unless we are familiar with the ideas that economists have already explored. And we cannot understand the ideas of the great economists unless we understand the times of their lives. Times change, and so do economic systems; and so, we want to describe the development of economic organization from feudalism, to the market economy, to the complex mixed economy, to the present-day global economy.

Among economists history has not gone unrecognized. In 1993, the prestigious Royal Swedish Academy of Sciences awarded the

Nobel Memorial Prize in Economic Science jointly to Douglas C. North of Washington University and Robert Fogel of the University of Chicago, two important innovators in economic history. At the core of North's work is the query, "Why are some nations rich and others poor?" For North, as for Adam Smith, the answer lies in how institutions evolve and affect the performance of economies through time. (**Institutions** include formal systems, such as constitutions, laws, taxation, insurance, and market regulations, as well as informal norms of behavior, such as habits, morals, ethics, ideologies, and belief systems.) North has impelled many economists to appreciate the limitations of our "economic laws" and to acknowledge the sizable effect that outside forces or chance events are likely to have. Outcomes depend on circumstances. In effect, North brings history back into economic theory.

Besides, when economic ideas are woven out of the fabric of economic history, any subject, even a mathematical natural science, cannot avoid humanity; it thereby becomes humane. *Mathematics* brings miraculous rigor to economics but history prevents it from succumbing to rigor mortis.²

Literature has sometimes played a major role in our establishing society's attitude about economic matters. Literary figures sometimes describe contemporary economic conditions with greater accuracy than the economists. During the English Industrial Revolution, classical economists who provided industrialists with a defense of 12-hour workdays and children in factories were no match for Charles Dickens.

Some of the great economists were themselves literary figures, Keynes among them (save when he turned to writing economic treatises). Veblen, John Kenneth Galbraith, and Robert Heilbroner can be read as literature as well as economics.

Early economists often had to work with inadequate data, and what could not be shown with numbers had to be "sold" through felicitous expression. It is thus important to study the language in relation to the available documentation. The pessimism of Thomas Malthus (population will outrun the food supply) becomes