

# CHAPTER ONE

## OVERVIEW

**After reading this chapter, you should be able to:**

1. State and explain the basic reason why we study economics.
2. Explain the concept of economics as a science
3. State and explain the five major questions about the various schools of thought
4. Discuss the interrelationships of economic ideas

## Introduction

THE HISTORY of Economic Thought is the history of the intellectual efforts that men have made in order to *understand* economic phenomena or, which comes to the same thing, the history of the analytic or scientific aspects of economic thought. This chapter will describe the history of those efforts from the earliest discernible beginnings up to and including the last two or three decades of the eighteenth century.

In facing the huge task that has been attempted rather than performed in this book we become aware immediately of the portentous fact. Whatever the problems that, to snare the unwary, lurk below the surface of the history of any science, its historian is in other cases at least sure enough of his subject to be able to start right away. This is not so in our case.

Here, the very ideas of economic analysis, of intellectual effort, of science, are ‘quenched in smoke,’ and the very rules or principles that are to guide the historian’s pen are open to doubt and, what is worse, to misunderstanding. It seems a number of topics should be included that pertain to the Sociology of Science—to the theory of science considered as a social phenomenon. But observe: these things stand here in order to convey some information about the principles we are going to adopt or about the atmosphere of the economic theory. Though reasons will be given for adopting them, they cannot be fully established here. They are merely to facilitate the understanding of what we have tried to do and to enable us to have better understanding of the various economic concepts.

### Why do we study the history of economic thought?

Well, why do we study the history of *any* science? Current work, so one would think, will preserve whatever is still useful of the work of preceding generations. Concepts, methods, and results that are not so preserved are presumably not worth bothering about. Why then should we go back to old authors and rehearse outmoded views? Cannot the old stuff be safely left to the care of a few specialists who love it for its own sake?

There is much to be said for this attitude. It is certainly better to scrap outworn modes of thought than to stick to them indefinitely. Nevertheless, we stand to profit from visits to the lumber room provided we do not stay there too long. The gains with which we may hope to emerge from it can be displayed under three heads: pedagogical advantages, new ideas, and insights into the ways of the human mind. We shall take these up in turn, at first without special reference to economics and then add, under a fourth head, some reasons for believing that in economics the case for a study of the history of analytic work is still stronger than it is for other fields.

1. Teachers or students who attempt to act upon the theory that the most recent paper is all they need will soon discover that they are making things unnecessarily difficult for themselves. Unless that recent paper itself presents a minimum of historical aspects, no amount of correctness, originality, rigor, or elegance will prevent a sense of *lacking direction and meaning* from spreading among the students or at least the majority of students. This is because, whatever the field, the problems and methods that are in use at any given time embody the achievements and carry the scars of work that has been done in the past under entirely different conditions. The significance and validity of both problems and methods cannot be fully grasped without knowledge of the previous problems and methods to which they are the (tentative) response. Scientific analysis is not simply a logically consistent process that starts with some primitive notions and then adds to the stock in a straight-line fashion. It is not simply progressive discovery of an objective reality. Rather it is a persistent struggle with creations of Our own and our predecessors’ minds and it ‘progresses,’ if at all, in a

criss-cross fashion, not as logic, but as the impact of new ideas or observations or needs, and also as the bents and temperaments of new men, dictate.

Therefore, any treatise that attempts to render ‘the present state of science’ really renders methods, problems, and results that are historically conditioned and are meaningful only with reference to the historical background from which they spring. To put the same thing somewhat differently: the state of any science at any given time implies its past history and cannot be satisfactorily conveyed without making this implicit history explicit.

2. Our minds are suitable to derive new inspiration from the study of the history of science. Some do so more than others, but there are probably few that do not derive from it any benefit at all. A man’s mind must be indeed slow if, standing back from the work of his time and beholding the wide mountain ranges of past thought; he does not experience a widening of his own horizon. The productivity of this experience may be illustrated by the fact that the fundamental ideas that eventually developed into the theory of (special) relativity occurred first in a book on the history of mechanics. But, besides inspiration every one of us may gather lessons from the history of his science that are useful, even though sometimes discouraging. We learn to understand why we are as far as we actually are and also why we are not further. And we learn *what succeeds and how and why*—a question to which attention will be paid throughout this book.
3. The highest claim that can be made for the history of any science or of science in general is that it teaches us much about the ways of the human mind. To be sure, the material it presents bears only upon a particular kind of intellectual activity. But within this field its evidence is almost ideally complete. It displays logic in the concrete, logic in action, logic wedded to vision and to purpose. Any field of human action displays the human mind at work but in no other field do we get so near the actual methods of working because in no other field do people take so much trouble to report on their mental processes. Different men have behaved differently in this respect. Some, like Huyghens, were frank; others, like Newton, were reticent. But even the most reticent of scientists are bound to reveal their mental processes because scientific—unlike political—performance is self-revelatory by nature. It is for this reason mainly that it has been recognized many times—from Whewell and J.S.Mill to Wundt and Dewey—that the general science of science (the German *Wissenschaftslehre*) is not only applied logic but also a laboratory for pure logic itself. That is to say, scientific habits or rules of procedure are not merely to be judged by logical standards that exist independently of them; they contribute something to, and react back upon, these logical standards themselves. To convey the point by the useful device of exaggeration: a sort of pragmatic or descriptive logic may be abstracted from observation and formulation of scientific procedures—which of course *involve*, or merge into, the study of the history of sciences.
4. It stands to reason that the preceding arguments, at least the ones that have been presented under the first two headings, apply with added force to the special case of economics. We shall attend presently to the implications of the obvious fact that the subject matter of economics is itself a unique historical process so that, to a large extent, the economics of different epochs deal with different sets of facts and problems.

This fact alone would suffice to lend increased interest to doctrinal history. But let us discard it for the moment in order to avoid repetition and to emphasize another fact. As we shall see, scientific economics does not lack historical continuity. It is in fact our main purpose to describe what may be called the process of the Filiation of Scientific Ideas—the process by which men’s efforts to understand economic phenomena produce, improve, and pull down analytic structures in an unending sequence. In addition, much more than in physics have results been lost on the way or remained in abeyance for centuries. We shall meet with instances that are little short of appalling. Stimulating suggestions and useful if disconcerting lessons are much more likely to come to the economist who studies the history of his science than to the physicist who can, in general, rely on the fact that almost nothing worthwhile has been lost of the work of his predecessors. Why, then, not start in at once upon another story of intellectual conquest?

### **Is economics a science?**

The answer to the question that heads this section depends of course on what we mean by ‘science.’ Thus, in everyday parlance as well as in the lingo of academic life—particularly in French and English-speaking countries—the term is often used to denote mathematical physics. Evidently, this excludes all social sciences and also economics. Nor is economics as a whole a science if we make the use of methods similar to those of mathematical physics the defining characteristic (*definiens*) of science. In this case only a small part of economics is ‘scientific.’ Again, if we define science according to the slogan ‘Science is Measurement,’ then economics is scientific in some of its parts and not in others. There should be no susceptibilities concerning ‘rank’ or ‘dignity’ about this: to call a field a science should not spell either a compliment or the reverse.

For our purpose, a very wide definition suggests itself, to wit: a science is any kind of knowledge that has been the object of conscious efforts to improve it. Such efforts produce habits of mind—methods or ‘techniques’—and a command of facts unearthed by these techniques which are beyond the range of the mental habits and the factual knowledge of everyday life. Hence we may also adopt the practically equivalent definition: a science is any field of knowledge that has developed specialized techniques of fact-finding and of interpretation or inference (analysis). Finally, if we wish to emphasize sociological aspects, we may formulate still another definition, which is also practically equivalent to the other two: a science is any field of knowledge in which there are people, so-called research workers or scientists or scholars, who engage in the task of improving upon the existing stock of facts and methods and who, in the process of doing so, acquire a command of both that differentiates them from the ‘layman’ and eventually also from the mere ‘practitioner.’ Many other definitions would be just as good.

Since economics uses techniques that are not in use among the general public, and since there are economists to cultivate them, economics is obviously a science within our meaning of the term. It seems to follow that to write the history of those techniques is a perfectly straightforward task about which there should be no doubts or qualms.

Unfortunately this is not so. We are not yet out of the wood; in fact, we are not yet in it. A number of obstacles will have to be removed before we can feel sure of our ground—the most serious one carrying the label Ideology. This will be done in the subsequent chapters.

### **The five major questions about the various schools of thought**

As each important school of economic thought introduced, five major questions about it will be considered. This method will provide perspective on the school and the social background

that produced it. Such a concise summary at the outset will help clarify the main points as we study the ideas of the leading economists. The study of the economist will illustrate the characteristics of the schools with which they have been linked, and quotations from their writings will indicate the flavour of their thinking.

**1. *What was the social background of the school?***

Here we will look at the social background that nurtured a system of thought. The assumption is that economic theory developed in response to changes in the environment that drew attention to new problems. Since ideas have historically grown out of contemporary problems and issues, some knowledge of the times is essential if we are to understand why people thought and acted the way they did. It is true, of course, that many systems of thought exist simultaneously in the heads of many individuals. People can spin out a wide multiplicity of ideas, ranging from the most sensible to the wildly fantastic – or so they seem to contemporaries. Ideas irrelevant to society at the time they are presented wither and die, whereas those that are useful and effective in answering at least some questions and in solving some problems are disseminated and popularized, thereby making their authors famous. An Adam Smith contributed much to economic thinking, but can anyone doubt that, had he never lived, the same ideas would have been forthcoming from someone else? Perhaps they would have come somewhat later. Perhaps they would not have been expressed so well or so clearly. Then thinking people would have stumbled about a bit more before they found themselves on the path that he so clearly laid out.

Smith made a great contribution precisely because his ideas answered the requirements of his time. If, for example, the theory of comparative advantage in international trade had been discovered in the feudal epoch, it would have been without significance in a world of local self-sufficiency with a minimum of trade. The dispute over the Corn Laws in England in the early 1800's brought forth the theory of rent. Had Keynes published *The General Theory of Employment, Interest and Money* in 1936, it probably would have attracted far less attention than it did. Clearly the social milieu in which ideas grow is important.

**2. *What was the essence of the school?***

Here we will make broad generalizations about the ideas of successive economic schools. The strength of such a procedure is that we can get at the heart of the matter very concisely. The weakness is that there will be exceptions that we cannot take up in detail. A succinct summary presents patterns of uniformity in the ideas of an epoch, but the exceptions may contain the seeds of ideas that will triumph in the future. Thus, we will argue that mercantilists favored the accumulation of gold and silver; yet there were some among them that took an anti-bullionist position. They were overwhelmed and scarcely heard at first, but ultimately their ideas were vindicated. Similarly, the classical school believed in free foreign trade; yet Malthus, a classical economist, was a protectionist.

**3. *What groups of people did the school serve or seek to serve?***

If we assume that economic theory seeks answers to questions, it is important to know what questions are asked and who asks them. Questions that are dominant in the thoughts of one group may be insignificant to another. Theologians in the middle ages, for example, were very much concerned about the morality of charging interest for money lent out. With the passage of time this problem seemed less important. The merchant capitalists in their heyday asked, “How can a country best accumulate gold and silver?” the classical economists were more concerned with, “How can we increase production?” “The Socialists wanted to know, “How can we best improve the condition of the working classes?” A system of ideas must fit the needs of all of society, or it must at least be acceptable to a powerful group that will try to defend, develop, and popularize it.

Most economic theorists assume that the self-interest or the individual is dominant and guides the economic process. Yet individual self-interest does not result in the chaotic condition of individuals going their own way in opposition to the rest of society, for individuals are guided by market, social, political, and ethical forces to cooperate with other people in organizing a reasonable working relationship with society. Moreover, they coalesce into groups because of social pressures, common interests and ideas, and natural gregariousness. Thus there are religious, political, aesthetic, social, economic, and other groups, each of which presents a unified outlook and program in its sphere of special interest. We are concerned here with groups of people who develop common economic ideas based partly on self-interest and partly on other considerations that help shape their concept of how an economy should be organized and in what direction it should move. We shall try to identify the groups that supported each school of thought and the groups to which each school appealed for support, successfully or unsuccessfully.

**4. *How was the school valid, useful, or correct in its times?***

Here we have to find our way between two opposing dangers. One is the erroneous idea that thinkers of the past were wrong, naive, ignorant, or foolish – that we, being much wiser, have discovered the final truth. Thus, J.B. Say, writing over a hundred and fifty years ago, asked; “what useful purpose can be served by the study of absurd opinions and doctrines that have long ago been exploded and deserved to be? It is mere useless pedantry to attempt to revive them. The more perfect a science becomes the shorter becomes its history”

We reject this view, popular as it has been since Say expressed it. It applies more to the physical than to the social sciences. Because the physical universe has not changed perceptibly during recent centuries, the laws under which it operates have not changed much either. Since our scientific knowledge has grown, we have come closer to the truth. Nevertheless the history of physical science is meaningful. But society has changed, and with those changes we must expect new theories to explain it. A plausible theory or policy in the seventeenth century would be questionable three hundred years later.

The other extreme is to find every dominant idea of the past right, just, and good in its time. The possible validity of economic ideas must of course be related to their time and place, but they may have been wrong or unreasonable even when first presented. This critical approach may well be applied to current thinking also. When John Maynard Keynes implied that pyramid-building in ancient Egypt was a counter depression measure, he was wrong, for he confused two different societies; public works in Egypt did not arise for the same reasons as ours. The writer who recently stated that mercantilists followed a full employment policy suffered from a similar confusion; mercantilists were primarily concerned, not with avoiding unemployment, but rather with pushing more and more men, women, and children into workshops. Concepts that are serviceable today may have been applicable in earlier times, and they may become inappropriate in the future; ideas that are widely accepted today may be erroneous or inappropriate, but they persist because of the difficulty of changing people's minds.

5. *How did the school outline its usefulness?*

Ideas that were once useful can outlive their usefulness as social conditions change. The evolutionary approach to economic thinking recognises that society is changing continually. As new problems arise new analyses become appropriate.

**NB:**

These five questions will be used as guides for presenting the historical background, the content, and the relevance of economic schools.

**The interrelationships of economic ideas**

There has been a significant degree of continuity in economic thinking over the centuries. The founders of a new type of theory may draw upon the ideas of their predecessors and develop them further; or they may react in opposition to earlier ideas that stimulate their own thinking in new directions.

It is remarkable that modern ideas can bear a certain similarity to long-abandoned and long-repudiated concepts of past epochs. For example, the mercantilists of the sixteenth to eighteenth centuries were certain that the national economy could not be safely left to run itself. One of their major concerns as a goal of government regulation was how to promote the increased wealth of the nation; that is, they were concentrating on economic development. The mercantilist doctrines and policies were driven from the stage of history by Adam Smith and classical school. But in modern times we have come back to the idea that the economy cannot be permitted to run itself under laissez-faire conditions. In addition, governments must exert themselves to promote economic development.

This is not to say that history moves in circles, and that we are back to where we were more than two hundred years ago. Conditions have changed completely since mercantilist times. The characteristics of the governments then and now are very different; the reasons for intervening in the economy have changed drastically; and the effects on different groups of people are not what they once were. The common people, for example, benefit very much more from government intervention today than they did before 1776.

History moves in spirals rather than in circles. Our theories and policies frequently do return to similar theories and policies of an earlier epoch; but they are on different planes under very different conditions. The differences are as significant as the similarities, and both are worth examining closely. This we try to do in the following chapters.

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