**CSS 220**

**Sophomore Economics Tutorial**

**2012-2013**

**History of Economic Thought**

**2-4 PM, PAC, Room 413**

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**Course Description:** The tutorial uses a topical approach to explore the history of economic thought. We begin with a brief introduction to writers who pre-dated Adam Smith: the Scholastics, Mercantilists and Physiocrats. Over the subsequent weeks, we compare competing schools of economic thought: classical; Marxist; utilitarian; Austrian; neoclassical; and Keynesian. We include selections of radical critiques from the political right and left including monetarist, supply-side, behavioral, evolutionist and institutional approaches. The theoretical debates both reflect and shed light on the economic and social problems of their time. As you master the material, you should keep several goals in mind. First, learn to link the debates to the economic problems faced by nations over the past 300 years. Second, become skilled at explaining how economic theory has altered its shape and content from the 1700s to the present. Third, sharpen your awareness of the interaction between the scientific and the social aspects of human knowledge. Finally, develop and learn to defend your assessment of mainstream economics; decide which aspects reflect theoretic advancement and which are simply reflections of political agendas or outmoded perspectives. Throughout the course we will use contemporary articles to illustrate modern-day versions of the historical disputes. The course material is designed to provide a fuller context for what you learn in politics, history, and social theory while deepening your understanding of contemporary economic debates. If you need further motivation for studying the history of economic thought, consider the following famous quotation from John Maynard Keynes:

> …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 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. *(The General Theory of Employment, Interest, and Money, Chapter 24, final paragraph).*

**Book Purchases:** You may purchase copies of the major texts on line or at Broad Street Books. Broad street books has the appropriate editions that you are expected to use for your weekly essays. Go to their home page [http://www.bkstr.com/Home/10001-10115-1?demoKey=d](http://www.bkstr.com/Home/10001-10115-1?demoKey=d) and find their textbook section to locate the list of specific editions ordered for this course. **Please note:** If you use texts other than the specific editions ordered for this course, you will be
required to provide information on publisher and edition when you cite specific material in your weekly essays.

Many of the readings for this course are available in electronic form. You may use the electronic links which I have provided in your weekly assignments. Although the electronic links provide the least expensive method of obtaining the readings, they may not offer the most effective method for working with the material. Hard copies may be especially important when you read large portions of a particular text and when you review the material at the end of the year in preparation for the comprehensive exams. I find that I remember more of a text when I have a hard copy to work with. Below, I list the texts from which we will draw most heavily.

**Required Purchases:**
You must own a copy so that I can refer to page numbers when I make suggestions for improved writing style.
McClosky, Dierdra. *Economical Writing, 2nd ed.* (May 1999). We will read the whole book and make extensive use of the writing suggestions.
Schumpeter, *Capitalism, Socialism, & Democracy*. There is no on-line source and we will be reading substantial portions of this text.

**Highly Recommended for Purchase:**
Although the on-line version is adequate, I recommend that you purchase the Oxford World’s Classics version with the valuable preface by Geoffrey Gilbert
Adam Smith, *The Wealth of Nations*. We read substantial portions. [LINK](http://socserv.mcmaster.ca/econ/ugcm/3ll3/smith/wealth/index.html)
Adam Smith, *The Theory of Moral Sentiments*. We read substantial portions. [LINK](http://socserv.mcmaster.ca/econ/ugcm/3ll3/smith/moral.html)
Ricardo, *Principles of Political Economy and Taxation*. We read substantial portions.
You can read or download the document in the form of a pdf at [LINK](http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/ricardo/index.html)
Karl Marx, *Capital, Volume I*. We read substantial portions. [LINK](http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/marx/index.html)

**Important Links to Internet Sources for Additional Texts:**
The McMaster University Archive for the History of Economic Thought [LINK](http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/)


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Additional Readings: Additional readings are available in either hard copy or electronic form. These readings are accessible through Olin Library’s Reserve system. For electronic copies, go to Wesleyan Library’s web page, http://www.wesleyan.edu/library/ and click on E-Res. This will bring up the E-reserves search page. You can also reach the search page with the following link: http://eres.olin.wesleyan.edu/eres/courseindex.aspx?page=search. Find the page for our course and type the password CSS220. The readings are listed alphabetically by author. If no author is listed, the item is listed alphabetically by title. For hard-copy reserve readings, go to the Reserve Desk at Olin Library. Although some hard copies and extra texts will also be placed in the CSS library shelf provided for our class, prior-year problems with this method convinced me that the Olin reserve system is preferable. Too many copies disappeared from the CSS library or were monopolized for extensive periods of time.

Supplemental, Secondary Texts: You should try to tackle the original texts on your own. After reading the original work, you may find it helpful to consult a secondary text. If you do make use of supplemental secondary texts, please try to compare across several secondary sources. Notice both similarities and differences in the interpretations. Below is a partial list of helpful secondary sources available in Olin Library.

Helpful Secondary Sources Available in Olin Library:
Barber, A History of Economic Thought
Blaug, Economic History and the History of Economics
Blaug, Economic Theory in Retrospect
Canterbery, The Making of Economics
Dobb, Studies in the Development of Capitalism
Eagly, The Structure of Classical Economic Theory
Fusfeld, The Age of the Economist
Gray and Thompson, The Development of Economic Doctrine
Heilbroner, The Worldly Philosophers
Heilbroner, The Making of Economic Society
Heimann, History of Economic Doctrines
Lowe, On Economic Knowledge
Rima, Development of Economic Analysis
Robinson and Eatwell, An Introduction to Modern Economics
Roll, History of Economic Thought
Routh, The Origin of Economic Ideas
Schumpeter, History of Economic Analysis
Taylor, History of Economic Thought, Social Ideals & Economic Theories, Quesnay to Keynes
Weintraub, Modern Economic Thought
Weintraub, Keynes, Keynesians and Monetarists
Commanding Heights Online (See the following link and explore Episode I, Chapters 2-12)
Accommodations for Students with Disabilities: It is the policy of Wesleyan University to provide reasonable accommodations to students with documented disabilities. Students, however, are responsible for registering with Disabilities Services, in addition to making requests known to me in a timely manner. If you require accommodations in this class, please make an appointment with me as soon as possible (during the 2nd week of the semester), so that appropriate arrangements can be made. The procedures for registering with Disabilities Services can be found at http://www.wesleyan.edu/studentaffairs/

Mechanics: You must upload your essays to TURNITIN.COM every Friday by noon. Create a TURNITIN.COM account if you do not already have one. Enroll in the TURNITIN.COM version of our course by using the following information:
Course password: Thought
Class ID: 3503243

Paper deadlines and Tutorial attendance: Hard copies of all essays are due in class no later than the start of the Friday tutorials at 2pm. This is a strict deadline. You must attend all tutorials and the full two hours of each tutorial. Late papers and missed class time disrupt the structure of the tutorial and will have serious consequences. Be sure that you read the excerpt below from the CSS Student Handbook concerning the severe consequences for absences and late papers.

From the CSS Student Handbook:
http://www.wesleyan.edu/css/formajors/studenthandbook.html

Absences and Late Papers: Sophomores must attend all tutorials with a completed paper. Likewise, they must attend every session of the colloquium and submit its assignments when due. Absence from classes undermines a common learning experience, and failure to finish papers on time breaks the chain of effort and criticism on which the tutorial method depends. Absence from any tutorial or the colloquium for any reason or failure to complete a paper on time will be reported to the CSS co-chairs and will result in the student being placed on warning within the major. A second absence or late paper within that tutorial sequence or the colloquium for any reason will result in the student being put under review. Depending on the circumstances, a review for failure to attend class can result in separation from the CSS major. A review for late papers initiates late paper procedures http://www.wesleyan.edu/css/formajors/latepapers.html. Failure to comply with these procedures or a third late paper will normally result in separation from the major.
College of Social Studies

Sophomore Economics Tutorial

Topic in the History of Economic Thought

2012-2013 W. Rayack

Week 1

Divergent Views of Free-Market Competition

Readings:

Secondary Sources & Historical Perspective:

Primary Sources from the 1700s:
Smith, Adam. (1759) *Theory of Moral Sentiments*, Part I, Section 1 - Ch. 1, 3, & 5; Part I, Section 3 - Ch. 2; Part IV -Ch. 1.
Malthus, Thomas. Book II, Ch. I, section III, p. 314-330, “Of Accumulation, or the Saving from Revenue to Add to Capital, considered as a stimulus to the Increase of Wealth.” CSS Library
Jean-Baptiste Say, *Letters to Thomas Robert Malthus, Letter 1 & Letter 2*

Related Themes by More Recent Economists: Society, Polity & Markets:
Christ, Carl F. *The Competitive Market and Optimal Allocative Efficiency* ER
Dobb, Maurice "Capitalism," Ch. 1, Studies in the Development of Capitalism (1947) ER
Hayek, Friedrich “Competition as a Discovery Procedure.” ER
Polanyi, Karl. The Great Transformation, "Societies and Economic Systems," Ch. 4 ER
Arestis, Philip & M. Sawyer eds., *A Biographical Dictionary of Dissenting Economists* The link takes you to the on-line book. You may need to enter your Wesleyan user name & password to gain access. Search for the sections on Polanyi and Dobb. (*Optional*, but worth skimming for valuable perspective on dissenting views.)

Background: We start this week’s readings with essential background from a secondary-source. In chapter 2 of his book *History of Economic Thought: From Aristotle to Arrow*, Charles Staley describes the writings of the Scholastics (c. 13th-14th centuries) and the Mercantilists (c. 16th-18th
centuries). His overview reveals that efforts to establish “economic truths” far pre-dated Adam Smith. In Staley’s chapter 3, we discover writers who had “One Foot in the Mercantilist World and One in the Classical.” This chapter sets the stage for our first reading from primary-sources, Bernard Mandeville’s entertaining economic poem, “The Grumbling Hive.” Mandeville’s satirical view of economic motives and consequences contrasts well with Adam Smith’s rosy view of the economy as a complex but well-working machine.

Adam Smith’s Inquiry into the Nature and Causes of the Wealth of Nations, published in 1776, spells out a comprehensive theory of markets. His framework becomes the foundation for microeconomic theory. A fundamental concept for Smith is the productivity-enhancing nature of specialization. He provides a detailed description of production processes in which the division of labor has reached particularly advanced stages entailing a remarkably minute breakdown of tasks. The resulting productivity gains, we are told, work through multiple channels.

Smith recognizes that the rise in specialization will create heightened interdependence. The increased reliance on others, however, is no cause for concern; wants will be satisfied through the pure self-interest of sellers and buyers. The unrestricted workings of the market provide the ultimate mechanism for coordinating a diverse set of economic desires. The benefits of specialization tend to grow with the extent of the market. Thus, the expansion of trade becomes a source of improved opportunities for consumption and a powerful engine of economic growth.

In this week, we also see another side of Smith revealed in his earlier work The Theory of Moral Sentiments (1759). This manuscript was written more than a decade before the Wealth of Nations. You may want to compare Smith’s view of human psychology from Moral Sentiments with his view of self-interested behavior in the realm of markets. Do you see any way to reconcile the two perspectives? Or has Smith’s thinking simply evolved in a totally new direction by the time he writes the Wealth of Nations?

In order to encourage you to think more deeply about Smith’s classical analysis and the subsequent neoclassical formulations, I have included in this week’s readings material by Karl Polanyi (1886-1964), Maurice Dobb (1900-1976), Friedrich Hayek (1899-1992) and Carl Christ (1923- ). Polanyi suggests that the social relations and behavioral motives described by Smith are neither historically typical nor natural and universal. While Smith emphasizes the mechanical efficiency inherent in the division of tasks, Polanyi looks at the social relations of production implied by this increased specialization and by “rule of the markets.” Polanyi’s analysis starts from viewing man as a social being with the trait of social orientation, not acquisitiveness, being the primary motivation for human behavior. From Polanyi’s perspective, the division of labor in pre-capitalist arrangements was very different from that under capitalism. Under capitalism, increased specialization and division of labor typically cut labor off from owning the tools of production and from establishing self-sufficiency separate from the capitalist enterprise. Maurice Dobb reinforces the importance of this new feature in the social organization of production. His chapter on the definition of capitalism illustrates how the meaning of the term itself has evolved along with changing economic arrangements of production and exchange.

Smith argues that unfettered markets cause private actions to match public welfare. But what specific conditions are required for free markets to successfully reconcile private and public
interests? In an update of Smith’s argument, Carl Christ provides a neoclassical account of those conditions. Are the conditions identified by Christ found in The Wealth of Nations? In Christ’s exposition, what aspects simply re-state Smith’s account and what aspects are totally new?

Friedrich Hayek’s perspective on the benefits of competition reflects his background in the Austrian school of economics. Both Christ and Hayek have faith in unfettered markets and the competitive process. Yet Christ emphasizes equilibrium prices and the gains from allocative efficiency while Hayek rejects the static equilibrium approach. Instead, Hayek highlights the dynamic nature of competition. While reading the material for this week, consider how Hayek’s view of competitive markets compares with the views from Christ and Smith. Which do you find more compelling? Which more useful for analysis of current world events? Why?

Essay Assignment: Drawing only upon the assigned readings for this week, make a case for or against the following statement:

The economists studied this week differ on exactly what of value emerges from free market competition. They disagree on the potential gains, the manner in which an unfettered market creates value, and the universality of markets in organizing human interactions across cultures and over time. The diverse appraisals inherited from these economists leave a confusing clutter of assertions about what a free market achieves and which aspects of a competitive market are central to its success.

Think of the first essay as a trial run. We will use it as an example of what to do and what not do in your subsequent essays.

Preparation of the Material: The questions that I have provided below will help you focus your thoughts before you begin to organize your essay. They will also help you prepare for this week’s discussions. Please work on them before you meet with your preceptor. You need not address all of these questions in your essay, but consideration of these questions should be a part of your preparation for the Wednesday preceptorial and the Friday tutorials. For this reason, I strongly recommend that you jot down thoughts on the questions as you review this week’s material.

Focus Questions:

1. Exactly how does the division of labor promote productivity according to Smith?

2. What does Smith mean by natural price? Market price? Use value? Exchange value? What factors determine each of these?

3. How does the competitive market reconcile public and private interests? What specific conditions are necessary?

4. Is Smith’s view of human psychology from Moral Sentiments compatible with his view of self-interested behavior from Wealth of Nations? Is there any way in which to reconcile the two perspectives?
5. Are free markets and unregulated trade always best in Smith’s view?

6. What does Smith mean by the extent of the market, and why does he find it important?

7. Does the increased interdependence inherent in specialization successfully mesh with “egotistical” self-interested man in Smith’s view? How does this happen in Smith’s framework?

8. What is new and what is simply “more of the same” when you compare Christ’s neoclassical understanding of competitive markets with Smith’s classical view?

9. How does Hayek’s understanding of competitive markets compare with the classical view from Adam Smith and the neoclassical view from Carl Christ?

10. Do any aspects of Smith’s work show similarities with aspects of Scholastic economic thought?

11. In what ways was Smith’s analysis different from that of the Scholastics?

12. Does Smith’s work represent evolution or revolution in economic thought?

**ESSENTIAL INFORMATION ON ESSAY STYLE AND TUTORIAL MECHANICS**

**Essay Style:** I strongly recommend that you outline your argument before you begin to write. Please do not hand in an un-revised, un-edited first draft. Revise, edit, and polish before you submit the final paper. Clarity is essential. For valuable advice on writing an economics essay, you might want to start reading the required text by Dierdra McClowsky on Economical Writing. Essays should be between 4-5 pages, double spaced, with one-inch margins and 12-point font. Number the pages! I refer to these page numbers when I respond to your paper. Provide a title for your essay. Make sure that your name is on the paper. You should use the Chicago citation style. (Please see Diana Hacker, A Pocket Style Manual, for guidelines on the Chicago style. You are required to purchase this very useful book. It has been ordered for our course and is available at Broad Street Bookstore.) In writing your essay, make sure to demonstrate mastery of the assigned readings. Support your arguments with evidence (i.e. quotations and examples) from the readings, but do not hand in a paper that simply strings together quotations from your texts. Introduce quotations. Interpret quotations. Use your own words to clarify why a particular quotation or page reference supports your argument.

**Electronic copies:** Upload your essay to TURNITIN.COM Friday by noon. The course password is Thought and the class ID is 35032

**Hard copies:** Submit a hard copy of your essay at the start of the Friday tutorial at 2pm.

**Tutorial Requirements:** Arrive on time and attend the full two hours the tutorial. Be prepared to take part in the discussion of the material. Be respectful of your peers.
Week 2

Trade and Treasure

**Mercantilists**

Malynes, *Consuetudo vel lex mercatoria* This reading is optional but worth viewing.

Mun, *England’s Treasure by Forraign Trade* (1664)

**Classical Economists**

Hume, “*Of Money*” and “*Of the Balance of Trade*” (1752)


Ricardo, *Principles of Political Economy and Taxation* (1817), Chapters 7, 19, 22, 25, 28, 30

**Related Themes in Current Economic Debates:**

Reich, Robert B. “*The Poor Get Poorer*” Review of Fair Trade for All by Stiglitz & Charlton,” NYT Sunday Book Review, April 2, 2006

Stiglitz, Joseph E. “*Fair Trade for All. How Trade Can Promote Development,*” Brooks World Poverty Institute Inaugural Lecture. February 2006; “*No Time for a Trade War,*” Project Syndicate; “*The Promise of Global Institutions,*” in Globalization & its Discontents, Ch.1


Scott, Robert E. “*Heading South*” EPI Briefing Paper, (2011) (Optional)

**Secondary Sources:**

Staley, Review *pages 17-30* from Tutorial 1 and “The Physiocrats,” Chapter 4

**Writing Improvement:** (Everyone can improve!)


**Background:** Adam Smith’s *Wealth of Nations* attacks the mercantilist strategies toward trade that dominated policy in the seventeenth and early eighteenth centuries. You will find these strategies represented in two of the readings listed above, one optional and one required reading. The first, published in 1636, is an optional reading from *Consuetudo vel lex mercatoria* by Gerard de Malynes. The second, a required reading, is the tract *England’s Treasure by Foreign Trade*, written by Thomas Mun (1571-1641) and published posthumously in 1664. Although the
thinkers labeled “mercantilists” by Adam Smith held disparate views, their writings generally agreed on the need for a favorable balance of trade (i.e. the value of exports exceeds the value of imports). The policy was said to increase the stock of “treasure” (gold and silver) and thus enrich the nation. Two strands of mercantilist thought (c. 17th-18th centuries) stand out. According to the “bullionist” position, the state should prohibit the export of gold and silver in order to maximize the stock of treasure. In contrast, certain mercantilists maintained that a properly directed outflow of treasure would ultimately add to the stock of precious metals held by the state.

In reading this week’s material, you should decide which of these positions is taken by Thomas Mun and why. Note that Mun was an official in the East India Company, a chartered monopoly created in 1600. When reading Mun, keep in mind that the East India Company held exclusive rights to British trade to the east of the Cape of Good Hope, including Asia, the Indonesian archipelago, and East Africa and was authorized to export annually up to 100,000 pounds of treasure. (Barber, A History of Economic Thought)

Smith (1723-1790) offered a prescription for economic growth that called for the removal of trade restrictions. Remember that Smith published his Wealth of Nations in 1776, about 100 years after Mun’s treatise. The two were not contemporaries; Smith was born more than 150 years after Mun. While Mun lived in a world of transition toward a newly emerging capitalist system, Smith observed a world in which the major traits of capitalist production and exchange had become evident.

Smith’s call for free trade was consistent with arguments summarized earlier by David Hume (1711-1776). Writing in the mid-eighteenth century, Hume argued that a serious flaw afflicted that mercantilist thinking. He based his criticism upon the notion of a self-adjusting, specie-flow mechanism. In the articles by Hume, you will find Hume’s description of this adjustment process along with the fundamental elements of the quantity theory of money. This latter concept provided the foundations for the modern-day quantity theory, a topic which became a prime target in the writings of Keynes (1883-1946) and occupied the center of many macroeconomic debates in the decades to follow. Keynes provided a more sympathetic interpretation of mercantilist thinking in order to bolster his criticism of neoclassical economics. His contrasting interpretation of mercantilism, found in Chapter 23 of The General Theory of Employment, Interest and Money, is included in your readings for week VII of our tutorial.

In his Principles of Political Economy and Taxation, published in 1817, David Ricardo (1772-1823) investigates international specialization and refines the gains-from-trade argument. The concept of comparative advantage is central to his analysis. By numeric example, Ricardo demonstrates that when wine made in Portugal exchanges for cloth made in England, both countries increase total “enjoyments.” This defense of free trade bolsters Ricardo’s attack on the Corn Laws, restrictive tariffs imposed on the importation of grains. British grain prices, at the time, far exceeded the prices of imported foreign grains. In restricting grain imports through the Importation Act of 1815, the landed classes, who still controlled Parliament, hoped to prop up grain prices and protect their income. The Corn Laws were to stay in place until 1846. Their demise reflected a shift in political power away from the landed class.
The 17\textsuperscript{th} and 18\textsuperscript{th} century trade debates lend themselves to comparisons with more modern trade controversies. The readings by Robert Reich, Paul Krugman, Joseph Stiglitz, and Jeff Faux bring the debates over gains from trade up to date. In their essays, Krugman and Stiglitz discuss what they consider the common misconceptions about trade made by people who, in their view, are less versed in economics. Jeff Faux, commenting on today’s free trade agreements, argues that “This is not what Adam Smith, David Ricardo, and the classical advocates of free trade had in mind.”

**Essay Assignment:** Your assignment is to imagine this week’s writers responding to the statement below. Discuss the differences and similarities that you would expect in their individual responses.

Unrestricted movement of goods, capital and people across national boundaries reduces the independence of a nation and lessens the ability to carry out chosen policies in pursuit of national goals and values. A nation that permits unregulated transactions across its borders reduces its power to manage and guide its national economy. It becomes unable to protect and advance the interests of its people.

In writing your essay, be sure to demonstrate mastery of the material by supporting your argument with evidence from the readings. Remember, the focus of your essay should be the views of the economists in this week’s readings, not your own personal opinion of the statement.

**Focus Questions:** The questions that I have provided below will help you focus your thoughts before you begin to organize your essay. They will also help you prepare for this week’s discussions. Please work on them before you meet with your preceptor.

1) According to the mercantilist analysis of foreign trade, what was the best path to economic prosperity? Did the Physiocrats have the same point of view?

2) What factors might have motivated the mercantilist program?

3) To what did Smith attribute the mercantilist policies? What did Smith’s attack on the mercantilists consist of and how was this argument related to Smith’s notion of economic growth and national wealth?

4) Were free markets and unregulated trade always best in Smith’s view?

5) According to Hume, what was the basic flaw in the mercantilist strategy?
   a) What role did the specie-flow mechanism play in Hume’s criticism of mercantilism?
   b) How did the quantity theory of money enter into this critique?

6) What is the difference between absolute and comparative advantage, and what is the importance of this distinction?

7) What does Ricardo contribute to the trade analysis that was not already in Hume’s or Smith’s discussion?
8) In what significant ways does Ricardo’s approach contrast with Smith’s manner of analyzing economic interactions?

9) Is there anything new in the view of trade presented by Krugman or Stiglitz? Explain

10) Exactly what does Faux mean when he refers to agreements such as NAFTA as “so-called” free trade agreements? Is there any merit to Faux’s analysis? In Faux’s concerns, do you find any echoes of earlier economists? Explain.

11) How might Smith respond to the ideas presented by Faux? Would he find any points on which he and Faux might agree?

12) Do protectionist policies offer any elements of truth for modern-day macroeconomic analysis or policy? Upon what criteria do you base your decision?

13) Are free trade principles appropriate regardless of the particular economic system or historical period under consideration?

14) Are there any lessons to be learned in comparing the trade debates of the 18th century with current controversies in international trade?

15) Did the progression from the Scholastics, Mercantilists, and Physiocrats to the classical school represent pure progress in the sophistication of economic analysis? Were some elements of value lost with the decline of these three schools and the ascendancy of Smith and Hume?

Before beginning to write, please review the section from Essay 1 called

“ESSENTIAL INFORMATION ON ESSAY STYLE AND TUTORIAL MECHANICS”
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W. Rayack  

Week 3  
Sustainability and the Malthusian Question

Classical-Era Debates on Sustainability and Progress:  
Thomas Malthus, *An Essay on the Principle of Population*, (1778) Preface & Ch. 1, 2, 5, 10  
Marquis de Condorcet, "Historical View of the Progress of the Human Mind" (1794) [Link](#)

Related Debates in Modern Economic Analysis:  
Joseph Persky, "Retrospectives: Classical Family Values." [ER](#)  
John Tierney, "Betting on the Planet," [ER](#) 1990)  
Lebergott, "Per Capita Consumption and the Angel of the Lord" [ER](#) (1993)  

Writing Improvement: (Everyone can improve!)  

Background: Writing in 1778, Thomas Malthus (1766-1834) combined his theory of population growth with his understanding of agricultural production and came up with a decidedly gloomy conclusion. In the preface to his *Essay on the Principle of Population*, Malthus describes his work as a response to the views of William Godwin (1756-1836), a philosophic anarchist, and Marquis de Condorcet (1743-1794), a supporter of the early stages of the French Revolution (later imprisoned for criticizing the tactics of the revolutionaries). In fact, Malthus was also reacting against the opinions of his father who supported the optimistic view of human nature and human progress espoused by Godwin and Condorcet. Henry Spiegel, in his book *The Growth of Economic Thought*, describes the role of family dynamics as follows:

“The history of ideas abounds with views that were formed in opposition to parental authority. Malthus, as well as Godwin and Condorcet, is an example of this. Just as Malthus, when rebutting Godwin and Condorcet, assailed the views of his father, so did Godwin and Condorcet develop their views of the world in conflict with their parents. Godwin, the grandson of dissident ministers and a lapsed cleric himself, was repelled by the narrow Puritanism of his father and never forgot the reprimand he received when, as a
child, he profaned the Sabbath by playing with a cat. Condorcet, educated by Jesuits after having been brought up by a devout mother who consecrated him to the Virgin and made him wear girls’ clothes until he was nine, became an ardent follower of Voltaire in his twenties and outdid him in his anticlericalism.” (Speigel, Growth of Economic Thought, p. 168)

Family dynamics aside, Malthus and the utopians found little common ground. Godwin and Condorcet saw human achievement impeded by both inequality and the existing institutions; Malthus found human conditions ruled by the immutable laws of nature (and God), laws that no change in institutional arrangements could reverse. According to Malthus, attempts to improve conditions through the English poor laws only served to exacerbate the recurrent population crises.

The English poor laws dated back to the early 1500s. In their earliest form, they established the responsibility of each parish for its poor. Money was to come from a voluntary “poor fund.” Reformed multiple times over the ensuing years, the poor laws eventually relied on taxes for funding. They also delineated separate categories of poor for differential treatment, with some deemed deserving of aid and others not.

The population principles set forth by Malthus can be compared with what historians know about population trends of that period. Your reading by Dean provides background on the population changes of the time and considers competing theories on possible causes and consequences of those changes. From the Dean reading, one might conclude that models of population growth require much more complexity than Malthus’ framework allows. Ask yourself whether that is the case or whether Malthus succeeded in distilling a complex phenomenon down to its fundamental components.

The remaining readings for this week bring the population debates up to date. What some call the Malthusian perspective reappears in several modern-day forms: development debates, population control, environmental concerns, sustainability issues, and even in recent controversies over welfare reform. The reading by Joseph Persky reviews the 1996 U.S. welfare reform in light of its roots in Malthusian and classical economics. Meanwhile, Daily and Ehrlich, surpassing Malthus in terms of gloomy predictions, raise troubling questions about the earth’s carrying capacity. The reading by Tierney describes the debate between supposed, “modern-day Malthusians” and “Cornucopians.” He introduces economist Julian Simon who questions the Ehrlich doomsday scenarios. Simon’s arguments hinge on his unshakable faith in the ability of prices and profits to create as-yet-unimagined solutions to resource problems. In his Cato publication “Population Growth, Economic Growth and Foreign Aid,” Simon takes us into the economic-development debates on overpopulation. Nafis Sadik provides an example of the “populationists” being criticized by Simon, while the excerpt from Lebergott’s book considers the deeper welfare implications of births and deaths. In sum, you should have plenty to choose from in structuring this week’s essay!
**Essay Assignment:** Please comment on the following statement.

The original Malthusian view of population growth is not relevant for modern-day issues. Current theorists who hark back to Malthus or label others as “Malthusians” have distorted or misunderstood the arguments made by Thomas Malthus.

Be sure to demonstrate mastery of the assigned readings. Support your arguments with evidence (i.e. quotations and examples) from the readings, but do not hand in a paper that simply strings together quotations from your texts. Introduce quotations. Interpret quotations. Use your own words to clarify why a particular quotation or page reference supports your argument.

**Focus Questions:** The questions that I have provided below will help you focus your thoughts before you begin to organize your essay. They will also help you prepare for this week’s discussions. Please work on them before you meet with your preceptor.

1. How do geometric and arithmetic progression enter into the “Principles of Population” according to Malthus?

2. Why do differences in the quality of land matter?

3. What does Malthus mean by preventive checks and positive checks, and what role do they play in his theory?

4. When Malthus speaks of “oscillations,” what does he mean?

5. How do wage and price adjustments figure into his analysis?

6. What are the impacts of the English poor laws according to Malthus? Can you relate this view to any of the conditions for well-functioning markets discussed by Christ or Smith?

7. In the views expressed by Malthus, are poverty and inequality necessarily negative phenomena?

8. How do Godwin, Condorcet and Malthus compare in their views of the malleability of human nature and the role of man-made institutions?

9. Do births enrich us or impoverish us?

10. What aspects of Malthusian theory, if any, show up in the welfare reform of 1996 according to Joseph Persky?

11. What arguments does Persky put forth in rejecting the “motivating” aspects of poverty promoted by some advocates of the 1996 welfare reform?

Before beginning to write, please review the section from Essay 1 called “ESSENTIAL INFORMATION ON ESSAY STYLE AND TUTORIAL MECHANICS”
Week 4

On Value and Price

Early Classical Theory:
Adam Smith, *The Wealth of Nations*, Book I, Ch. 11 (Review Chs.1-9 from week 1)
Malthus, *Principles of Political Economy*
Book I, Ch. I, section II, p.34-49, “On Productive Labour” Also at *ER*
Book I, Ch. III, section IX, p. 207-217, “General Remarks on the Surplus Produce of the Land”
David Ricardo, *The Principles of Political Economy and Taxation*, Ch. 1-6, 20, 32

The Utilitarians:
J. S. Mill, Ch. 2, "What Utilitarianism Is" & Principles of Political Economy, Last 4 paragraphs of "Preliminary Remarks" & Book II, Ch. 1, "Of Property"
E. K. Hunt, "Utilitarianism & the Labor Theory of Value"
Peter Davis, "Cooperatives, Labor & the State: The English Labor Economists"

Writing Improvement:  (Everyone can improve!)

Background:
Early Classical Theory on Value:
In this week, we undertake an in-depth exploration of the concept of “value” and theory of price determination. As you read the sections of Smith, Malthus, and Ricardo, please focus on their individual efforts to explain rent, profit, and wages. Compare their theories on the source of “value” and on the manner in which value relates to price.

We will see that the classical theorists, in analyzing value, factor payments and price determination, provide some false starts as well as some enduring principles for the subsequent
development of neoclassical economics. While the neoclassical theorists find Smith’s theory of value wanting, the Ricardian theory of rent is of considerable importance for future developments in the field. The beginnings of supply and demand analysis are also here, although not with the sophistication provided later by marginal analysis associated with neoclassical theory. These writings, then, set the stage for the development of the neoclassical school of thought. At the same time, the seeds of radical and Marxian analysis are visible in these texts. The use of the labor theory of value and the emphasis on conflicting class interests prepares the way for economic theories that take a more critical view of the emerging system of production. In the coming weeks, we will explore both threads that emerge from this body of thought.

**The Utilitarians on Value**

Jeremy Bentham (1748-1832) viewed human behavior as a rational and calculated seeking of pleasure and avoidance of pain. In 1789, he published *An Introduction to the Principles of Morals and Legislation*, which, in many ways, provided the philosophical basis for neoclassical economics. In it, he developed the “principle of utility” stating “all human activity springs from the desire to maximize pleasure.” With this view, he moved away from the labor theory of value toward a utility theory of value. He hoped to obtain a scientific, mathematical explanation of exchange value derived from a commodity’s use value. In his later years, Bentham was not solely a theorist but also an advocate of significant social reform. The assigned sections from Jeremy Bentham’s *Economic Writings*, assembled by W. Stark in 1954, provide a brief look at Bentham’s later views. Both his early and late phases provided the foundations for the Utilitarian school and influenced, among others, William Thompson and John Stuart Mill.

William Thompson (1775-1833), like Bentham, was a reformer, but with a more radical agenda. He was influenced by Robert Owen (1771-1858), the founder of the Owenite cooperative movement. Owenites advocated creation of self-governing, industrial and agricultural communities based on a sharing of the means of production and the elimination of private property. Thompson combined his commitment to the Benthamite utilitarian theory with a belief in the labor theory of value; only labor created value and wealth in his view. Rejecting the economic insecurity that he believed inherent in private ownership of capital, Thompson argued that workers should own their own capital and the materials necessary for production. He also argued that competitive markets should be allowed to function freed from the restrictions of monopoly and government protection of special interests. His perspective can be seen as an early version of egalitarian, competitive market socialism. At the same time, Thompson worried about the corrupting incentives that he felt were inherent in the principle of individual competition. These negative consequences, he believed, would emerge even under market socialism. In particular, he was concerned about the oppression of women. This subjugation, he argued, would be relieved only by rejection of traditional independent families and creation of cooperative arrangements to prepare food and raise children.

John Stuart Mill (1806-1873), son of the political economist James Mill (1773-1836), produced one of the leading books on economic theory of the mid 19th century. In it, he tried to pay tribute to both Bentham and Ricardo by promoting a labor theory of value combined with utilitarianism. However, he qualified both theories so extensively that the final product was uniquely his own. In contrast to Frederic Bastiat (1801-1850), a contemporary who extended Smith’s and Bentham’s theory to an unqualified defense of private property, profit and the existing
distribution of wealth, Mill took a more moderate stance. While Bastiat’s writings prepared the way for the Austrian and Chicago schools of strict laissez-faire capitalism, Mill set the stage for more reformist elements sympathetic to redistributive policies and government intervention. Mill argued for theory to recognize the separation of the laws of production from the laws of distribution. Although the laws of production were unchangeable, in his view, the pattern of distribution was the result of man-made institutions which could, therefore, be altered.

**Essay Assignment:** In this week’s readings, the authors struggle to explain wages, rent, value, price and profit while disagreeing on whether free markets are divisive or integrative across class lines. Do their disagreements on value and price explain their disagreement on whether free markets produce class harmony or class conflict?

In constructing your argument, remember to make frequent reference to the readings. Support your arguments with evidence (i.e. quotations and examples) from the readings, but do not hand in a paper that simply strings together quotations from your texts. Introduce quotations. Interpret quotations. Use your own words to clarify why a particular quotation or page reference supports your argument.

**Focus Questions on the Classical Theories of Value:**

1. How is value created?
2. What is the distinction between “use value” and “exchange value?”
3. Where does “surplus” come from?
4. How is price determined? What is the difference between “natural price” and “market price?”
5. What is meant by the “necessary” components of costs of production?
6. How do the authors compare in their interpretations of rent?
7. How does rent emerge and what does it represent? How would you summarize the essential elements in the Ricardian theory of rent?
8. In the Ricardian theory of rent, what is the importance of the least productive plot brought into production? What is the importance of equalization of returns to capital?
9. How do the authors compare in evaluating the owners of capital and the profit collected by the owners of capital?
10. Does the evaluation of the land-holding class differ across authors?
11. Are the three authors in agreement on the labor theory of value and on the necessary components of the costs of production?
12. In viewing the free market mechanism as integrative or divisive, do views of property rights and the laws of ownership play a role?

**Focus Questions on the Utilitarian Theories of Value and Policy:**

1. What reformist themes, if any, do you see in the Utilitarian school? If they exist, do these reformist themes have a theoretical basis? If so, what is it?

2. Are there anti-reformist elements in the Utilitarian approach? If they exist, what are they and what is their theoretical basis.

3. What is Bentham’s view of government? Mill’s? Thompson’s? Do they favor a laissez-faire approach or do they take a positive view of government intervention?

4. What role does diminishing marginal utility play in the analysis? What policy is implied by this concept according to Bentham?

5. What role does individualistic analysis play in Utilitarian theory? How does this mesh with the view of government?

Before beginning to write, please review the section from Essay 1 called “ESSENTIAL INFORMATION ON ESSAY STYLE AND TUTORIAL MECHANICS”
Week 5

Invisible Hand or Invisible Chains - Efficiency or Exploitation

Secondary Source:
Barber, Chapter 5  Include the preface to chapter 5 and the epilogue to chapter 5.  (This useful text by William J. Barber is available online through Olin Library. I have also asked for a link to be placed on our ER page.)  ER

Marx:
Karl Marx, Capital, Volume I:
Part I – Ch. I (sections 1,2,4);
Part II – Ch. IV, Ch. VI;
Part III – Ch.VII, (sections 1,2), Chs. VIII, IX, X;
Part IV – Chs. XII, XIII, XIV (sections1,2,4,5), Ch. XV (sections 1,3,4,5,9.10)
Part V – Chs. XVI, XVII (sections 1,3,4), Ch. XVIII
Part VI – Chs XIX-XXI, skim XXII
Part VII – Chs. XXIII, XXIV, XXV
Part VIII – Chs. XXVI – XXXII
Karl Marx, Capital, Volume III,
Ch. 48, Section III, Paragraphs 1 and 2.
Ch. 52, “Classes” http://www.marxists.org/archive/marx/works/1894-c3/ch52.htm
Joan Robinson, “An Open Letter from a Keynesian to a Marxist” (1953)
http://www.rdwolff.com/content/how-class-works (Video)

Writing Improvement:  (Perhaps if Marx had read this……!)

Background:
I recommend that you start the Marx material by readings Barber, Chapter 5 for an overview.  In addition, you might want to consult other secondary sources to get a variety of views and interpretations.  However, when you write your essay, you should use your own words and select your own sections of the text to cite.
Your readings this week are mostly from Volume I of Capital written by Karl Marx (1818-1883) and published in 1867. Marx built upon the foundations of the classical theorists while mounting an acerbic attack on their general conclusions. It is difficult to get the flavor of Marx without reading a good portion of his material. For that reason, the reading assignment for this week is rather hefty. Start early! Here is the order in which I suggest you tackle the assigned pages of Capital.

First read Marx’s description of the battle over the length of the work day along with his portrayal of child labor and overall working conditions. (Volume I, Part III, Chapter 10). What is the importance of this chapter in Marx’s analysis. You may wish to return to that question after completing the more technical sections of this week’s readings.

Next, I suggest that you read Marx’s chapters on “The So-Called Primitive Accumulation.” (Volume I, Part VIII, Chapters 26-32) This shows Marx as historian. The history, however, has a particular importance. It serves to illustrate the forces that spawned the capitalist system that will, in turn, lead to its demise. Feudalism gives rise to the forces that turn against it, just as Capitalism gives rise to the forces that bring about its own destruction. As you read these chapters, think about how Marx, the historian, and Marx, the economist, inform and complement each other. Again, you may wish to return to that thought after completing the more technical sections of Capital.

Finally, tackle Marx the economist and the technical details of his economic analysis. Do not simply rely on secondary sources, although they will prove helpful. Instead, read the assigned sections carefully and draw from the original source when writing your essay. The details of Marx’s economic structure can be gleaned from the remaining assigned chapters. Feel free to skim for the important bits and refer back to Barber’s Chapter 5 frequently.

Keep your eyes open for the entertaining bits amidst the turgid prose. For example, if you read carefully, you will find the following remark buried within less engaging material. “If we may take an example from outside the sphere of production of material objects, a schoolmaster is a productive labourer when, in addition to belabouring the heads of his scholars, he works like a horse to enrich the school proprietor. That the latter has laid out his capital in a teaching factory, instead of in a sausage factory, does not alter the relation."

For your essay assignment this week, address the following statement:

“Marx is basically obsolete and unimportant for modern-day purposes. This is true whether we look at his economic model, his view of historical change, or his analysis of class. This obsolescence is not surprising as he failed to build upon the thinkers who had come before him.”

**Focus Questions:**
1. Is Marx’s approach informed by the thinkers who came before him?
2. Is Marx’s success in building his model hampered by the classical thinking of his day?
3. What important aspects of analysis, if any, does Marx share with earlier economists?
4. What important elements of the classical framework, if any, does Marx jettison?
4. What important, non-classical features, if any, does Marx add?

In advance of writing your essay, be sure to review definitions of the following concepts and their importance in Marx’s analysis: Use value, exchange value, socially necessary labor time, C-M-C and M-C-M’, labor power, surplus value, exchange value of labor power, necessary labor time, surplus labor time, constant capital, variable capital, rate of surplus value, rate of profit, primitive accumulation, crisis and stagnation. As always, be sure to demonstrate mastery of the assigned readings.

Before beginning to write, please review the section from Essay 1 called

“ESSENTIAL INFORMATION ON ESSAY STYLE AND TUTORIAL MECHANICS”
Week 6

Marginalism and The Birth of Neoclassical Economics: What is old? What is new?

Neoclassical Theory: The Marginalist Revolution
George J. Stigler, "Development of Utility Theory" *ONLY Section 1* of Part I (1950) ER

Neoclassical Theory: Welfare Economics
George J. Stigler, "The Development of Utility Theory” *Part I (Sections II-IV)* (1950)
J. B. Clark, *The Distribution of Wealth* Preface & Chs. 12 & 13 (1899)
Pareto, Manual of Political Econ. Ch.3, para.14-37, 116; Ch. 6, para.32-37 CSS Library (1906)
A. C. Pigou, *Economics of Welfare*, Part I: Chapter VIII (1920)
Lionel Robbins, "Interpersonal Comparisons of Utility: A Comment" (1938) ER
Nicholas Kaldor, "Welfare Propositions of Economics & Interpersonal Comparisons" (1939)

Hal R. Varian, Intermediate Microeconomics: Modern Approach Ch. 30, 32 CSS Library

Writing Improvement: (Jevons clearly should have read this!!)

Background:
Where Marx saw increasing concentration of capital, a series of more conventional economists found Smith’s atomistic view of the market and Bentham’s individualistic utility framework more appealing and worthy of further elaboration. In the early 1870s, three economists in particular (Jevons, Menger and Walras) published texts which are often credited with giving birth to modern-day neoclassical theory. Working separately, but publishing in rapid succession, their writing established the school of economics associated with marginalism, the decision-making process based on marginal analysis (i.e. incremental changes).

In his text, *Theory of Political Economy*, published in 1871, William Stanley Jevons (1845-1882), used Bentham’s utility theory as a starting point and developed a comprehensive utility
theory of value. In the same year, Carl Menger (1840-1921) distinguished between total utility and marginal utility and linked marginal utility decision-making to price determination. Soon after, Leon Walras (1834-1910) published Elements of Pure Economics (1874) in which he introduced the concept of general equilibrium analysis, a fundamental component of modern-day economic thought. In fact, the Marginalist school emerged from a broad range of theorists all moving toward a view of value and behavior based on incremental changes in utility.

Building on this marginalist framework while harking back to Smith and Ricardo, Alfred Marshal (1842-1924) developed his own foundational view of economic theory in his Principles of Economics (1890) which eventually replaced Mill’s Principles as the major English textbook in economics classrooms. He combined the emerging marginalist understanding of market mechanisms with a reformist perspective more reminiscent of John Stuart Mill. At the same time, he is largely credited with deriving the most successful link between demand analysis and the concept of diminishing marginal utility. Despite his reformist sympathies, Marshal was a believer in incremental reforms. He had faith in “economic chivalry” on the part of the rich for ridding the market of “the worst evils of poverty”

J. B. Clark (1847-1938) extended the marginal utility analysis to a theory of income distribution. While Marshal’s theory relied on fixed input ratios, Clark recognized the importance of variable input ratios and the associated payments to the factors of production. Labor received its “value of marginal product” (output price x marginal product of labor) and capital earned a similar payment (output price x marginal product of capital). After all payments to factors of production were made, the expenditure on the total product was accounted for and no Marxian exploitative surplus needed to be explained.

The work of the marginalists, sometimes referred to as “the Marginalist Revolution” in economics, laid the groundwork for the developing field of “welfare economics” represented in your readings by the readings from Vilfredo Pareto (1848-1923), A.C. Pigou (1877-1959), and Lionel Robbins (1898-1984). Pareto’s work defined an optimal point as one in which no person could be made better off without another suffering a decrease in utility. The locus of such optimal points, called “the contract curve,” appears in modern-day textbooks as part of the “Edgeworth Box” after the economist Francis Edgeworth (1845-1926). The specific optimum chosen depends on relative prices, the initial distribution of endowments and the shape of individual preferences. Pigou suggests that distributional issues may be addressed by the assumption of diminishing marginal utility of income. This view, however, violates the condition prohibiting interpersonal comparisons of utility. These debates are discussed in your readings by Robbins and Nicholas Kaldor (1908-1986).

The complex nature of the welfarist theories and debates makes secondary sources particularly helpful for this week of readings. Feel free, as always, to consult outside sources. I have provided some sources for you. They include the remainder of the Stiglitz article and a modern textbook view of welfare economics from Hal Varian (Chapters 30 & 32). The readings by Sen and Atkinson offer critiques of the standard view of “economic man” embodied in the welfare literature. Atkinson provides a valuable overview of welfare economics along with a summary of both Sen’s critique and Sen’s alternative to utility theory called “capability theory.”
**Essay Assignment**: Comment on the following statement:

When we speak of the “Marginalist revolution” and “welfare economics,” the two words, “revolution” and “welfare” are both misnomers. In fact, marginalism is little more than old-school utilitarianism embellished with a large doses of mathematics, and “welfare economics,” because of its restrictive design, cannot really tell us anything about the nature of social welfare.

Before beginning to write, please review the section from Essay 1 called

“**ESSENTIAL INFORMATION ON ESSAY STYLE AND TUTORIAL MECHANICS**”
Week 7

The Nature of Capitalism - Part A: Is Free Market Capitalism Inherently Unstable?

Keynes, Schumpeter and the Macroeconomic Debates
John Maynard Keynes, *The General Theory* Chapters 1-3, 8-14, 17-19, 21, 22, 23, 24
Joseph Schumpeter, "Review of The General Theory; & Capitalism, Socialism, and Democracy (1942) Ch. 6-8, 13, 14 Required Text (If time permits, also read Ch. 1-4)
Commanding Heights Online (Use the following link to find the appropriate chapters)
http://www.pbs.org/wgbh/commandingheights/hi/story/ch_f01_02.html (I recommend Episode 1, Chapters 2-9)

Modern-Day Relevance of the Macroeconomic Debates
"Deflation Danger: Of Debt, Deflation & Denial" (Oct 12, 2002) *Electronic Reserve*
Stiglitz *FreeFall*, “Preface” and pp. 1-76 CSS Library
John Cassidy, *After the Blowup* CSS Library
Krugman, “The Attack on Keynes,” *Peddling Prosperity*, pp. 23-54 CSS Library
Krugman, “How Did Economists Get It so Wrong?"

Radical Critiques from the Right on Macroeconomic Stability and Growth
Debate on Monetarism: Arthur Burns, “Money Supply in the Conduct of Monetary Policy,” and Friedman, “Response to Burns” CSS Library
Notes on Rational Expectations and the Phillips Curve CSS Library
Tobin, James. http://minneapolisfed.org/publications_papers/pub_display.cfm?id=3649
Optional Sources for Additional Background
Galbraith, “How Keynes Came to America,” in The Age of Uncertainty
Joan Robinson, Economic Philosophy, (esp. p 79) & Economic Heresies (esp. pp. 88-95)
Hicks, The Crisis in Keynesian Economics, 1974

Writing Improvement:

Background:
This week we examine three approaches to understanding macroeconomic instability, that of Joseph Schumpeter (1883-1950), John Maynard Keynes (1883-1946) and Milton Friedman (1912-2006). In a unique manner, Schumpeter’s view, while largely influenced by the Austrian tradition in economic thought, also reflects the influence of Marx. Hoping to capture the attention of those familiar with Marx’s work, Schumpeter uses a similar approach and similar concepts to present a very non-Marxist, non-Keynesian view of capitalist crises. Schumpeter, like Keynes, sees macroeconomic instability as endemic to capitalist growth. However, where Keynes sees these crises as problems requiring government action, Schumpeter views the crises as healthy aspects of a dynamic capitalist system.

The General Theory, by John Maynard Keynes, revolutionized the field of economics and gave birth to modern-day macroeconomic analysis. While Keynes’ significance is beyond question, understanding Keynesian economics is made difficult by the fact that we often see three very different faces of Keynes: the one speaking to us from the General Theory, the one pieced together by the “neoclassical-Keynesian synthesis” promoted by J. R. Hicks (1904-1989), and the one less compatible with neoclassical analysis reflected in your readings by Nobel-prize winner James Tobin (1918-2002). Although the Hicksian approach is the model that entered the text books, it is that very same approach that was labeled “Bastardized Keynesianism” by economist Joan Robinson, a well-known contemporary of Keynes.

I have added several readings illustrating the modern-day relevance of the macroeconomic debates. After finishing the first set of readings, you should tackle these additional selections. The last group of required readings introduces several radical macroeconomic critiques from the right. You will read a debate on inflation illustrating the monetarist perspective of Milton Friedman along with a more mainstream view of inflation from the former chairman of the Federal Reserve, Arthur Burns. You will also read a debate on supply-side economics with the minority, supply-side view expressed in the Business Week article and a skeptical evaluation offered by mainstream, conservative economist Herbert Stein. Finally, you should read James Tobin’s comments on the theory of rational expectations, a model which can be described as “inflation-augmented Phillips curves on steroids.”

I have included an optional set of readings for those interested in delving further into the differing interpretations of Keynes. As Keynes died before the end of 1946, others were left to speculate on how he would have applied and extended his theory to more recent economic developments.
Essay Assignment: For this week’s essay, please comment on the following quote:

“Free-market capitalism is inherently unstable, but this instability arises from factors that cannot be effectively countered by macroeconomic fiscal and monetary policies.”

The following questions may help you focus your thoughts before you begin to write:

1. In the various readings, are the hypothesized origins of the instability the same?
2. Do all of the readings put equal weight on short-term and long-term analysis?
3. Are the policy prescriptions drastically different?
4. What are the impacts of entrepreneurship and investment behavior in each of the theories?
5. Are any of the approaches more in line with the classical school of economic analysis?
6. Are any of the approaches more compatible with modern-day neoclassical analysis?
7. Can you identify the differences among the various interpretations of Keynesian economics?

Before beginning to write, please review the section from Essay 1 called

“ESSENTIAL INFORMATION ON ESSAY STYLE AND TUTORIAL MECHANICS”
Week 8
The Nature of Capitalism – Part B:
Is the Consumer Sovereign Under Free-Market Capitalism?

Friedman & the Chicago School:
Friedman, “Who Protects the Consumer,” (1980). The transcript is available on
http://www.freerepublic.com/focus/f-news/1675277/posts. Or you can watch the video
http://www.youtube.com/watch?v=KgVvUz6mUkY
Lebergott, “Consumers/Critics; Happiness/Welfare; Choice/Advertising” (1993) CSS Library

Institutional Economics, Evolutionary Economics & Behavioral Economics:
Galbraith "Myth of Consumer Sovereignty" (1958) & "Countervailing Power" (1952) CSS Lib
Thorstein Veblen, The Theory of the Leisure Class (1899), Chs. 1-4, 7, 14

Maximizing Utility or Maximizing Capability:
Or listen to it at LINK Start at minute 3:15; Also skim "Rational Fools" (1977)

Optional:
Arestis, & Sawyer eds., A Biographical Dictionary of Dissenting Economists search for
Veblen, Galbraith, Commons, Sen.
Hayek, “The Use of Knowledge in Society” AER V. 35 p. 519 (1945) PDF
Tibor Scitovsky, “Income and Happiness” (1976) CSS Library
Robert Van Horn and Philip Mirowski, “The Rise of the Chicago School…” pp. 139-180 in The

Writing Improvement:

Background:
According to the concept of consumer sovereignty, the market delivers what consumers want.
But how are those wants determined and, once they are satisfied, are individuals happier? Does
economic growth translate into more satisfied lives? The readings in this week raise questions
about what the capitalist system delivers. Thorstein Veblen (1857-1929) sees the emergence of a
leisure class, but not one that is particularly attractive. In fact, capitalism, by promoting exploit
and by honoring plunder, fuels a competition of conspicuous consumption. The picture that
emerges is one of supercilious waste.

John Kenneth Galbraith (1908-2006), known for his “institutional” approach to economics,
weighs in on the concept of consumer sovereignty and finds it wanting. In another classic piece,
Galbraith argues that the performance of modern-day capitalism is typified by continuing tensions among distinct countervailing powers. For example, unions represent a countervailing power that is necessary to counter-balances corporate influence. Although neoclassical theory elevates the consumer to a sovereign power, it has much less to say about the satisfaction of the individual-as-worker. Yet the typical individual is both consumer and producer. In fact, many consumers spend more than half of their adult lives at work. The circumstances of the consumer and the conditions of the worker might deserve equal importance in the economic analysis of well being.

Tibor Scitovsky (1910-2002) investigates the supposed link between higher income and increased happiness, raising serious questions about the impact of income on contentment with life. Meanwhile, Stanley Lebergott (1918-2009) harks back to a more traditional faith in free market capitalism. Lebergott claims that the tendency of competitive-market to respond to consumer choice serves as the basis for highly favorable outcomes. A very different view comes from Nobel-award winner Amartya Sen. In “Rational Fools: A Critique of the Behavioral Foundations of Economic Theory,” Sen offers a penetrating critique of the standard view of “economic man” embodied in neoclassical analysis. Anthony B. Atkinson provides an overview of Sen’s critique and an introduction to Sen’s alternative to utility analysis, an approach called “capability theory.” Sen’s capability theory suggests a distinctly new perspective on issues of economic development and well-being. Behind the capability approach is a definition of freedom that is quite different from the laissez-faire definition put forth by the Chicago school of economics.

**Assignment:** For this week’s essay, please comment on the following statement.

Modern-day capitalism is best characterized by the supreme rule of the consumer. This has the happy result of encouraging the production of goods most relevant for satisfying individual wants and promoting personal happiness. We need only look at the improvement in comforts available to humankind in general and to the U.S. population in particular in order to convince ourselves of the heightened living standards that this consumer sovereignty makes possible.

Before beginning to write, please review the section from Essay 1 called

“**ESSENTIAL INFORMATION ON ESSAY STYLE AND TUTORIAL MECHANICS**”