CSS 220
Sophomore Economics Tutorial
2015-2016

History of Economic Thought
2-4 PM, PAC, Room TBA

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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; Marxian; 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:**

Hacker, Diana. *A Pocket Style Manual, 6th edition* I refer to this book when I mark your essays. (Multiple copies are on hard-copy reserve at Olin Library)

McCloskey, Dierdra. *Economical Writing*, 2nd ed. (May 1999). (You should read the whole book and use it frequently. There are no copies in the library.)

Schumpeter, Joseph. *Capitalism, Socialism, & Democracy.* (There is no on-line source, and we will be reading substantial portions of this text.)

Pujol, Michele. *Feminism and Anti-Feminism in Early Economic Thought.* (I have placed two copies on hard-copy reserve. The book is expensive. I will make copies of required pages and place extra copies of those pages on reserve.)

**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)


You can read or download the document in the form of a pdf at
http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3l13/jevons/index.html

John Maynard Keynes, The General Theory. We read the whole book. LINK

Important Links to Internet Sources for Additional Texts:
The McMaster University Archive for the History of Economic Thought
http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3l13/
The Marxist Internet Archive
http://www.marxists.org/

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 Course Reserves and then select On-line Reserves. This will bring up the E-reserves search page. 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. However, 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
Pack, Aristotle, Adam Smith and Karl Marx
Pack, Capitalism as a Moral System: Adam Smith’s Critique of the Free Market Economy
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*
Weintrab, *Keynes, Keynesians and Monetarists*
Commanding Heights Online (See the following link and explore Episode I, Chapters 2-12)

**Disability Resources:** Wesleyan University is committed to ensuring that all qualified students with disabilities are afforded an equal opportunity to participate in and benefit from its programs and services. To receive accommodations, a student must have a documented disability as defined by Sections 504 of the Rehabilitation Act of 1973 and the ADA Amendments Act of 2008, and provide documentation of the disability. Since accommodations may require early planning and generally are not provided retroactively, please contact Disability Resources as soon as possible.

If you believe that you need accommodations for a disability, please contact Dean Patey in Disability Resources, located in North College, Room 021, or call 860/685-5581 for an appointment to discuss your needs and the process for requesting accommodations.

**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. At our first meeting, I will give you the following information:

**Course password:** Trimester1
**Class ID:** 10409705

**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 CSS Handbook: [http://www.wesleyan.edu/css/formajors/studenthandbook.html](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](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

2015-2016 W. Rayack

Week 1
Society and Markets

Readings:

For background:
Staley, Charles (1992) History of Economic Thought: From Aristotle to Arrow, ER p.3-40
Pages 1-2 will be handed out at our pre-tutorial meeting.
(Focus on Aristotle, Scholastics, and Physiocrats; Skip Mercantilists for now.)

Primary sources from the 1700s:
Smith, Adam. (1759) Theory of Moral Sentiments, Part I, Sec I, Chs.1-5; Part III, Ch. 5, para 1, p. 229-230; Part VII, Sec IV, Para 13, p. 489.
Book I: Chapters 1-3 (Focus on Division of Labor, Propensity to Truck, and Extent of the Market); Chapter 4 (Focus on Value in Use versus Value in Exchange); Chapter 6, “Of Component Parts of the Price of Commodities”; Chapter 7, “Of the Natural and Market Price of Commodities”
Book II: “Introduction”; Chapter 1, (Focus on fixed and circulating capital); Chapter 2, Paragraphs 90 to 94 (on regulating banks); Chapter 3, (Focus on unproductive labor; benefits of parsimony); Chapter 4, “Stock Lent at Interest” up to paragraph 14 only.

Related Themes in Modern Economic Debates: Society, Polity & Markets:
Polanyi, Karl. (1944) The Great Transformation, “Societies and Economic Systems,” Foreword, p. ix-xii; Ch. 3 on the enclosure movement; Ch.4 on individual motives, social cohesion, reciprocity and redistribution ER
Christ, Carl F. The Competitive Market and Optimal Allocative Efficiency ER
Hayek, Friedrich (1968) “Competition as a Discovery Procedure.” ER
Background: We start this week’s readings with essential background from a secondary-source. In the first chapters of his book *History of Economic Thought: From Aristotle to Arrow*, Charles Staley describes the writings of Aristotle (384-322 BC), the scholastics (c. 13th-14th centuries), the mercantilists (c. 16th-18th centuries) and the Physiocrats (18th century). Economic theorists in this last group, the Physiocrats, were contemporaries of Adam Smith. Staley’s 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. (We will later meet Keynes, the founder of modern-day macroeconomic 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 buyers and sellers. The unrestricted workings of the market provide the 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), Friedrich Hayek (1899-1992), Carl Christ (1923 - ) and Michele Pujol.(1951-1997).

Polanyi suggests that the social relations and behavioral motives described by Smith are neither historically typical nor natural and universal. 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 long pre-dates capitalism and finds its source in the interdependencies of social life. In chapter 3, Polanyi uses the enclosure movement to illustrate how economic progress can bring social dislocation which, in turn, produces efforts to slow the transformation and policies to ease the human fallout. In
chapter 4, Polanyi criticizes the view, attributed to Smith, that markets have always ruled human behavior and have always held a dominant role in structuring human interactions.

The neoclassical debt to Adam Smith is illustrated by Carl Christ. Smith argues that unfettered markets cause private actions which improve public welfare. He makes clear, however, that specific conditions are required to insure that free markets successfully reconcile private and public interests. In an update of Smith’s argument, Carl Christ provides a neoclassical account of those conditions. A reading of Christ raises the following questions: Are all of 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?

In contrast to Carl Christ, 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, note that Hayek, Smith and Christ all see rather different benefits emerging from free market competition.

Finally, Michele Pujol’s review of early economic thought reveals a paucity of reflection on the economic role of women. We see very little on women in general, on their special position in the division of labor, and on their importance for the reproduction of the family, society and the existing economic system. Pujol offers a thought-provoking critique of Smith. For an advocate of individual agency and action, Smith has remarkably little to say about the economic status of women. In future weeks, we will find some important exceptions to what Pujol deems a “male-centric” economic theory.

**Essay Assignment:** Drawing only upon the assigned readings for this week, make a case for or against the following statement: (Hint – For all of the prompts this trimester, you always have the option of choosing to disagree with some parts of the statement while agreeing with other parts.)

The economists studied this week disagree on the nature of free market competition. They hold conflicting views on the universality and dominance of markets across cultures and over time. They differ on whether pure gains are achieved, how gains are produced, and whether policies are required to soften market forces. The diverse appraisals inherited from these economists leave a confusing clutter of assertions about what a free market does, how it accomplishes its functions, and what factors 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. The most important goal for this essay is to find a thesis that you are comfortable defending. The second most important goal is to defend that thesis with evidence from the readings. Once you have accomplished those first two goals, focus on your third goal which is to present your evidence and the argument defending your thesis in a logical manner. Be sure to make the logical structure of your argument crystal clear to your reader.
**Details to note**: The questions below will help you focus on essential details of this week’s material. Please work on them before you meet with your preceptor.

1. Exactly how does the division of labor promote productivity according to Smith?
3. Compare Smith to Aristotle and to the scholastics on issues of “just price” and “usury.”
4. Compare Smith to the Physiocrats on the source of surplus and economic progress.
5. How does the competitive market reconcile public and private interests? What specific conditions are necessary?
6. Is Smith’s view of human psychology from *Moral Sentiments* compatible with his view of self-interested behavior from *Wealth of Nations*? Does the increased interdependence inherent in specialization successfully mesh with “egotistical” self-interested man in Smith’s view? How does this happen?
7. What does Smith mean by the extent of the market, and why does he find it important?
8. Is the analysis of “The Grumbling Hive” compatible with Smith’s “Invisible Hand” where the market reconciles the needs of self-interested buyers and sellers? Is vice a virtue according to both Mandeville and Smith? Does government policy and regulation play a role in either of these two stories?
9. 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?
10. How does Hayek’s understanding of competitive markets compare with the classical view from Adam Smith and the neoclassical view from Carl Christ?
11. Does Smith’s work represent evolution or revolution in economic thought? (Consider Aristotle; Consider the scholastics)
12. How does Polanyi differ from Smith on (a) economic progress; social dislocation; (b) the role of policy in economic transformation; (c) the origins and purposes of the division of labor; (d) the dominance of markets throughout human history; (e) the relative importance of unfettered markets versus societal purposes in advancing the progress of humankind.
13. What explains Smith’s silence on the role and status of women? What are the consequences of this silence for the history of economic thought?

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**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 McCloskey 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. quotes and examples) from the readings, but do not hand in a paper that simply strings together quotes from your texts.
Introduce quotes. Interpret quotes. Use your own words to explain how a particular quote or page reference supports your argument.

**Electronic copies:** Upload your essay to TURNITIN.COM Friday by noon.

**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 of the tutorial. Be prepared to take part in the discussion of the material. That preparation includes full participation in all preceptorials. Be respectful of your peers. Do not miss any tutorials!
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Sophomore Economics Tutorial  
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Week 2  
Trade and Treasure  

**Mercantilists:**  
Mun, *England’s Treasure by Forraign Trade* (1664) You may wish to SKIM this selection.  

**Classical Economists:**  
Hume, “*Of Money*” and “*Of the Balance of Trade*” (1752)  
Smith, *The Wealth of Nations* (1776),  
Book IV. Chapters 1-2. (Focus on Mercantilism); Chapter 3, Part I (Skip the “Digression on Banks of Deposit…”); Chapter 3, Part II; Ch. 4; Chapter 5, On Bounties (Skip “Digression concerning Corn Trade and Corn Laws”); Chapter 8, “Conclusion of the Mercantile System”  
Ricardo, *Principles of Political Economy and Taxation* (1817), Chapters VII “On Foreign Trade”, XIX On Sudden Changes in the Channels of Trade, XII Bounties on Exportation, and Prohibitions of Importation, XXV on Colonial Trade  

**Related Themes in Current Economic Debates:**  
Reich, Robert B. “Americans Have Had it With Free Trade,” Solon, 2015 (*Moodle Page*)  
Stiglitz, Joseph E. “*On the Wrong Side of Trade*” NYT 2015 (*Moodle Page*)  
Krugman, Paul R. “*Trade and Trust*” NYT, May 22, 2015 (*Moodle Page*)  
Krugman, “What Do Undergrads Need to Know About Trade?” *ER*  
Handout: Blau and Feber on Comparative Advantage and the Family  

**Secondary Source:**  
Staley, Review pages 17-40 from Tutorial 1 *ER*
**Background:** Adam Smith’s *Wealth of Nations* rejects the mercantilist strategies toward trade that dominated policy in the seventeenth and early eighteenth centuries. You will find these strategies represented in 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. Note that Smith was born more than 150 years after Mun and that Smith published his *Wealth of Nations* in 1776, about 100 years after Mun’s treatise was published. 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 the final weeks 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 17th and 18th century trade debates lend themselves to comparisons with more modern trade controversies. The readings by Robert Reich, Paul Krugman, and Joseph Stiglitz, bring the debates over gains from trade up to date.

**Essay Assignment:** Comment on the statement below. (Hint: Imagine this week’s writers responding to the statement. Consider differences and similarities that you would expect in their responses. Use their views in developing your own response. Be sure to demonstrate mastery of the material by supporting your argument with evidence from the readings.)

**Major problems are created by the unrestricted movement of goods, capital and people across national boundaries. In fact, unrestricted trade reduces the ability of a nation to promote nationally accepted values and beliefs. Environmental protections, worker safety laws, employment goals, wage growth, child labor laws, consumer protections and human rights standards are all undermined by unregulated international trade. Such trade lessens the ability of a nation 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 influence social policy. The country becomes unable to protect and advance the interests, goals and ethical values of its people.**

**Details to note:** The questions below will help you focus on essential details of this week’s material. Please work on them before you meet with your preceptor.

1. Compare the Physiocrats and mercantilists on the best path to economic prosperity.
2. What factors might have motivated the mercantilist program? 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?
3. According to Hume, what was the basic flaw in the mercantilist strategy? What role did the specie-flow mechanism play in Hume’s criticism of mercantilism? How did the quantity theory of money enter into this critique?
4. What does Ricardo contribute to the trade analysis that was not already in Hume’s or Smith’s discussion? What is the difference between absolute and comparative advantage, and what is the importance of this distinction? In what significant ways does Ricardo’s approach contrast with Smith’s manner of analyzing economic interactions?
5. Is there anything new in the view of trade presented by Krugman, Stiglitz, or Reich? Are there any lessons to be learned in comparing the trade debates of the 18th century with current controversies in international trade? Do protectionist policies offer any elements of truth for modern-day macroeconomic analysis or policy? Upon what criteria do you base your decision? Are free trade principles appropriate regardless of the particular economic system or historical period under consideration?
6. Did the progression from the scholastics, mercantilists, and Physiocrats to the classical school represent pure progress in economic analysis? What was lost?

Before beginning to write, please review the section from Essay 1 called “**Essential Information on Essay Style and Tutorial Mechanics**”
Week 3

Classical-Era Debates on Sustainability, Progress, and the Role of the State

Smith on Economic Progress and the Role of the State:

Can Progress Stall? Say versus Malthus on Encouraging Savings and Avoiding Gluts:
Jean-Baptiste Say, *Letters to Thomas Robert Malthus, Letter 1 & Letter 2*
Martin Baily, *Battle Against Unemployment & Inflation, p. 201-211* “Guide to Supply-Side Econ.,” & “Some Supply-Side Propositions” by Herbert Stein. (Hard Copy Reserve)

Population Growth, Progress and Sustainability - The Malthusian Question:
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)

Related Debates in Modern Economic Analysis:
Juliet Schor, “Sustainable Consumption” (Moodle)
Joseph Persky, "Retrospectives: Classical Family Values," ER
John Tierney, "Betting on the Planet," (1990) ER
Gretchen Daily & Ehrlich, “Population, Sustainability…”
Julian Simon, "Population Growth, Economic Growth, and Foreign Aid," (Moodle)
Lebergott, "Per Capita Consumption and the Angel of the Lord" ER (1993)

Secondary Sources:
Phyllis Deane, “*The Demographic Revolution*” ER
Folbre, Ch. 6, p. 88-93 “Of Bread & Cake, p. 95-6 “Timid Egoism”; Ch. 7, p. 101-2 “The Vindication,” p. 103-5 Godwin’s Enquiry; Ch 8; Ch9, intro & p. 125-128 “Patriarchal Capitalism,”; p. 130-139 “Labor Theory of Value” & remainder of chapter. ER
**Background:**

This week we begin by investigating a lesser known side of Adam Smith. Pay close attention to the readings from Book V of the *Wealth of Nations*. Here Smith discusses legitimate tasks of government, use of taxes, and appropriate methods for raising state revenue. Take careful note of the state activities and taxes that Smith considers appropriate.

In his list of problems to be solved by state action, Smith does not include the problem of general gluts. Smith’s faith in markets includes the view that sustained gluts of unsold goods can never persist in all markets at once. This is also the view professed by Jean Baptiste Say, after whom Say’s law is named. The law is often stated as “supply creates its own demand.” (i.e. production creates sufficient income to buy what has been produced.) This week we explore the debate between Thomas Malthus (1766-1834) and Jean Baptiste Say (1767-1832) on the question of gluts and the impact of saving. Say argues that gluts will always be temporary and confined to specific markets. He rules out sustained and simultaneous stagnation. A glut in one market implies a shortage somewhere else. In contrast, Malthus argues that too much saving can cause surpluses of goods and labor, leading to extended and painful periods of general economic distress. In this respect, Malthus diverges from his classical peers, most of whom accept the views of Say. To some extent, Malthus’ attention to economic stagnation anticipates the focus of Keynes (1883-1946) in *The General Theory of Interest, Income and Unemployment* (1936), the book which gives birth to modern-day macroeconomics.

Today, Malthus is known less for his theory of gluts than for his views on parish support for the poor. Writing in 1778, Malthus combines his theory of population growth with his understanding of agricultural production and comes 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.

Malthus and the utopians found very 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 God and nature, 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 succeeds in distilling a complex phenomenon down to its fundamental components.

The remaining readings for this week bring the sustainability concerns up to date. What some call the “Malthusian perspective” reappears in several modern-day debates over development policy, population control, environmental degradation, and welfare reform.

The reading by Joseph Persky reviews the 1996 U.S. welfare reform in light of its roots in Malthusian and classical economics. Persky’s analysis questions the wisdom of using poverty as a disciplinary tool. It also criticizes the Malthusian-like use of wives, children and the nuclear family as a tool of punitive social policy. The excerpt from Lebergott’s book considers the deeper welfare implications of births and deaths and asks what we mean by the word “poverty.” If we measure poverty by per-capita income, does family well-being rise when an elder dies or fall when a baby is born?

Meanwhile, Daily and Ehrlich, surpassing Malthus in terms of gloomy predictions, raise troubling questions about the earth’s carrying capacity. The reading by journalist John Tierney describes the debate between supposed, “modern-day Malthusians” (e.g. Ehrlich) and “Cornucopians.” He introduces economist (and “Cornucopian”) Julian Simon who questions the Ehrlich doomsday scenarios. In his Cato publication “Population Growth, Economic Growth and Foreign Aid,” Simon takes us into the economic-development debates on overpopulation. Simon’s arguments hinge on his unshakable faith in the ability of prices and profits to create as-yet-unimagined solutions to resource problems.

While Ehrlich fears overpopulation in developing countries and Simon celebrates population growth in the developing world, Juliet Schor places the burden on richer nations. She calls on wealthy countries to cut hours of work. The reduced work hours, she argues, would lower unnecessary consumption and production while improving life in leisure-poor nations. She notes that few in the sustainability debates have addressed the problem of declining leisure, a particularly U.S.-centered phenomenon which promotes unnecessary consumption while reducing the well-being of workers.

Finally, in the excerpts from Nancy Folbre’s book, Greed, Lust & Gender, we see the classical debates linked to issues of gender. Some thinkers imagine, as Condorcet does, a future in which human progress requires more equality across both class and gender. Others follow Malthus and see deepened poverty from attempts to undo the existing hierarchies. Still others maintain the patriarchal model while arguing for poor relief as a type of family allowance, thus seeing large families as “a blessing and not a curse.” (Folbre, 113) In her discussion of “patriarchal capitalism,” Folbre reveals the link between restricted economic opportunities for women and their weak bargaining position in both family and factory work. In sum, you should have plenty to choose from in structuring this week’s essay. Be creative. Have some fun!
Essay Prompts: This week, we have several prompts to consider. Write about only one, but take notes on all as you do your readings. Be ready to talk about all of the questions.

1) In describing tax and spending policy for the state, has Smith broken with the anti-government, anti-tax stance assigned to him by popular interpretations? Does he have a unified theory that helps to identify appropriate activities and tax guidelines? Is his expanded role for government compelling or problematic?

2) Consider the debate between Malthus and Say on savings and general gluts. Which of the two seems to have the upper hand in this debate in your view? Do you base your evaluation on historical evidence or theoretical cohesion? What aspects of theoretical cohesion seem to support one view or the other? What aspects of historical evidence, prior to the 1900s, supports one view or the other?

3) Why were the Classical theorists, in general, so wedded to Say’s law?

4) 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. In fact, the present-day Cornucopian thinkers have more in common with Malthus than with Godwin and Condorcet, the utopian thinkers of Malthus’ day. Modern-day Malthusians, furthermore, express a clear distrust of free markets that would be quite foreign to Malthus.”

5) Assume that you are reporting on a panel discussion among the three thinkers, Malthus, Persky and Legergott about public provision of aid to the poor. Consider how the thinkers might differ on the following issues: defining who is poor, explaining the effects of poverty, and predicting the consequences of publically providing cash grants to poor families and individuals. Write an essay reporting on this imagined panel discussion. As part of your article, make clear which views you find most compelling, least compelling and why.

6) Comment on the following statement and provide evidence to support your view: “Throughout history, economists have studiously avoided asking significant questions of central importance for social and economic reproduction. To fully understand economic progress and sustainability, we need to understand the patriarchal underpinnings of the existing capitalist system. Classical economists were blind to those patriarchal foundations, leaving a diminished legacy of economic theory for their neoclassical descendants.”

Details to note: The questions below will help you focus on essential details of this week’s material. Please work on them before you meet with your preceptor.
1. According to Malthus, how do geometric and arithmetic progression enter into the “Principles of Population”? What does Malthus mean by preventive checks and positive checks, and what role do they play in his theory? When Malthus speaks of “oscillations,” what does he mean?
2. Why do differences in the quality of land matter? How do wage and price adjustments figure into Malthus’ analysis?
3. In the views expressed by Malthus, is poverty necessarily a negative phenomenon? Is inequality a problem? How do Godwin, Condorcet and Malthus compare in their views of the malleability of human nature and the role of man-made institutions.
4. What aspects of Malthusian theory show up in the welfare reform of 1996 according to Joseph Persky? Does Persky approve of this modern-day return to Malthusian thinking? What
arguments does Persky put forth in evaluating the “motivating” aspects of poverty promoted by some advocates of the 1996 welfare reform?

5. Do births enrich us or impoverish us? On this question, how does Lebergott compare with Smith? Malthus? Simon? Erhlich?

6. What new perspective on the classical economists do you gain from reading Folbre?

7. Does Schor add anything new beyond the analysis that Erhlich promotes? Which approach do you find more compelling?
Week 4

On Value

**Early Classical Theory:**
Smith, *The Wealth of Nations*,
Book I: Review Chs. 6 and 7 from Week 1; Ch. 8, “Of the Wages of Labour”; Ch. 9, “Of the Profits of Stock”; Ch. 10, “Of Wages and Profits in the Different Employments…”; Ch. 11, “Of the Rent of Land”
Book II: Review Ch. 4 “Stock Lent at Interest” from week 1
Book IV: Ch. 5, “Digression concerning Corn Trade and Corn Laws”
Ricardo, David. *The Principles of Political Economy and Taxation*, Ch. 1-6, 20, 32

**The Utilitarians:**
Mill, J.S. Ch. 2, "What Utilitarianism Is" & *Principles of Political Economy*, Last four paragraphs of "Preliminary Remarks" & Book II, Ch. 1, "Of Property"

**Secondary Sources on the Utilitarians and the English Labor Economists:**
E. K. Hunt, *Utilitarianism & the Labor Theory of Value"
P. Davis and M. Parker, "Cooperatives, Labor & the State: The English Labor Economists"
Background:

Early Classical Theory on Value:
In this week, we undertake an in-depth exploration of the concept of economic “value” and the related classical debates on price determination. As you read Smith, Malthus, and Ricardo, focus on their efforts to explain rent, profit, interest, and wages. We will see that the classical theorists, provide some false starts as well as some enduring principles for the subsequent development of neoclassical economics. While the modern-day neoclassical theorists find Smith’s theory of value wanting, the theories of rent from Smith, Malthus and Ricardo are of considerable importance for future developments in the field.

The beginnings of supply and demand analysis are also here. Although not as technically sophisticated as the subsequent, calculus-based analysis, these writings clearly set the stage for the marginalist “revolution” of neoclassical economics. At the same time, the seeds of radical and Marxian theory are visible in these texts. Emphasis on divisive class interests and labor as the primary source of value lead to a questioning of the status quo. These concepts of class conflict and the labor theory of value prepare the way for theories that take a more critical view of the emerging capitalist system.

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. 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 Bethamite 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.
At the opposite end of the spectrum, we find Frederic Bastiat (1801-1850). Although not included in our required readings this week, Bastiat is important for extending Smith’s and Bentham’s theories to an unqualified defense of private property, profit and the existing distribution of wealth. His writings prepared the way for the Austrian and Chicago schools of strict laissez-faire capitalism that we will devote time to in upcoming weeks.

John Stuart Mill (1806-1873) took a more moderate stance. The son of the political economist James Mill (1773-1836), J. S. Mill 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 combining Bentham’s utilitarianism with Ricardo’s labor theory of value. However, he qualified both theories so extensively that the final product was uniquely his own. Mill set the stage for more reformist elements sympathetic to redistributive policies and government intervention. He argued for theory to recognize the separation of the “laws of production” from the “laws of distribution.” According to Mill, although the laws of production were unchangeable, the pattern of distribution was the result of man-made institutions, and their man-made nature meant that they could be altered. Changing the distribution, he argued, would not disrupt the laws of production. The distribution of income was society’s choice.

**Essay Assignment:** Again, we have several questions to address. Write about only one, but take notes on all as you do your readings. Be ready to talk about all of the questions.

1) **Compare Smith, Malthus and Ricardo on views of rent and the land-holding class.**
   Are the differences that you observe linked to contrasting economic theories? Defend your argument.

2) **Do Smith, Malthus and Ricardo have a uniform theory of wages?** Is the range of their wage theories very narrow or quite broad? Provide specific examples to defend your argument.

3) **Do Thompson, Malthus, Smith and Ricardo agree on a theory of price determination?** Explain and give specific examples to defend your argument.

4) **Do Thompson, Smith, Malthus and Ricardo have a uniform theory of profit?** Provide specific examples to defend your argument.

5) **The writers covered in this week disagree on the primary source of value.** They also disagree on whether free markets are divisive or integrative across class lines. Do their disagreements on the source of value explain their disagreement on whether free markets produce class harmony or conflict?

6) **What reformist themes do you see in the utilitarian school?** Do these reformist themes have theoretical foundations? Explain. What anti-reformist elements do you find in the utilitarian approach? Do these anti-reformist elements have theoretical foundations? Explain.

7) **Do you find anything of value in the perspectives offered by Pujol and Folbre that you would have missed if you had not read these authors?** Defend your view with examples from the readings for this week.

**Details to note:** The questions below will help you focus on essential details of this week’s material. Please work on them before you meet with your preceptor.

1. What is the distinction between “use value” and “exchange value?”
2. What is the difference between “natural price” and “market price?”
3. What is meant by the “necessary” components of costs of production?
4. How is value created? How is price determined? Where does “surplus” come from?
5. How do the authors compare in their interpretations of rent? How does rent emerge and what does it represent? What are the essential elements in the Ricardian theory of rent? What is the importance of the least productive plot brought into production? What is the importance of the equalization of returns to capital? What is the importance of diminishing marginal product, and is that concept equivalent to our modern view of diminishing marginal product?
6. What is Ricardo’s view of “the stationary state?” What will postpone its arrival?
7. How do the authors compare in evaluating the owners of capital and the profit collected by the owners of capital?
8. What role does diminishing marginal utility play in Bentham’s analysis? What policy is implied by this concept according to Bentham?
9. How does Bentham’s utilitarianism compare with that of Mill and Thompson? What does Mill mean by higher orders of utility, and why does he think this concept important.
10. What role does individualistic analysis play in Utilitarian theory? How does this individualistic analysis mesh with the utilitarian view of government?
College of Social Studies

Sophomore Economics Tutorial

Topic in the History of Economic Thought

2012-2013

W. Rayack

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**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:**
*The Communist Manifesto*, Skim the whole document if you have never read it before.

*Capital, Volume I:*
- Part I – Ch. I (sections 1,2,4);
- Part II – Ch. IV, Ch. VI;
- Part III – Ch. VII, (sections 1,2), Ch. VIII, IX, X;
- Part IV – Ch. 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

*Capital, Volume III:*
- Ch. 27 “The Role of Credit in Capitalist Production”; Ch. 48, Section III, Paragraphs 1 and 2; Ch. 52, “Classes”

**Marxian Economics: Looking back and looking ahead**
Rick Wolf, “Capitalism Hits the Fan” (Moodle) I have place a file of this video on Moodle and I have also placed the URL on Moodle. If neither of those links work try going to the following web page and downloading the video: [https://vimeo.com/1962208](https://vimeo.com/1962208)

Wolf, “Teaching Capitalism’s Crisis” (Moodle)

Joan Robinson, *An Open Letter from a Keynesian to a Marxist*

Robinson, “Marxian Economics Today” (Moodle)

Robinson, (Optional) “An Essay on Marxian Economics” (Hard Copy Reserve at Olin Library)
Background:
I recommend that you start the Marx material by reading 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). Ask yourself, “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 and 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 sections and refer back to Barber’s Chapter 5 frequently.

Keep your eyes open for the entertaining tidbits 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.”

The video and reading by Rick Wolff give you the perspective of a modern-day Marxian economist on the most recent crisis in capitalism. Compare his analysis to Marx’s approach and give careful consideration to his thesis. Think about whether you find his argument compelling? What elements of his analysis ring true and what do you find less convincing?
For another serious use (and critique) of the Marxian framework, see the readings by Joan Robinson. She combines a deep respect for Marx and Keynes with a serious mission to retain what is useful while correcting errors that she sees in both.

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 Marx failed to build upon the classical thinkers who preceded him.”

Details to note: The questions below will help you focus on essential details of this week’s material. Please work on them before you meet with your preceptor.

1. What does Marx mean by use value and exchange value?
2. Explain Marx’s concept of socially necessary labor time.
3. Why is C-M-C vs. M-C-M’ important?
4. Define labor power and the exchange value of labor power.
5. What is Marx’s understanding of surplus labor time and surplus value?
6. Define constant capital, variable capital, the rate of surplus value and the rate of profit.
7. What is primitive accumulation?
8. What are the sources of capitalist crisis according to Marx.
9. Is Marx’s approach informed by the thinkers who came before him?
10. Is Marx’s success in building his model hampered by the classical thinking of his day?
11. What central aspects of analysis, if any, does Marx share with earlier economists?
12. What important elements of the classical framework, if any, does Marx jettison?
13. What crucial, non-classical features, if any, does Marx add?
Week 6

Marginalism & the Birth of Neoclassical Economics: What is old? What is new?

**Neoclassical Theory: The Marginalist Revolution**
- Alfred Marshall, *Principles of Economics* (1890) Book III, Ch. VI; Book V, Ch. III; Book VI, Ch. II; Book V, Ch. VIII para 21 on “Quasi-rents”; Book VI, Ch. VIII para 29.

**Neoclassical Theory: Welfare Economics**
- 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 Handout (1906)
- A. C. Pigou, *Economics of Welfare*, Part I: Ch. VIII ; Part II, Ch. II, Ch. IX & Ch. XI (1920)
- Lionel Robbins, "Interpersonal Comparisons of Utility: A Comment" (1938) ER
- Nicholas Kaldor, "Welfare Propositions of Economics & Interpersonal Comparisons" (1939)

**Secondary Sources:**
- George J. Stigler, "Development of Utility Theory" ER
- Hal R. Varian, Intermediate Microeconomics: Modern Approach Ch. 30, 32 Handout

**Questioning the Foundations of Neoclassical Economics:**
- Nicholas Kaldor, “The Irrelevance of Equilibrium Economics.” (Moodle)
- Oskar Morgenstern, “Thirteen Critical Points in Contemporary Economic Theory.” (Moodle)
- Amartya Sen, “Rational Fools” (Moodle)
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 Marshall (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, Marshall 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 Marshall’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. For that reason, I have provided three secondary sources that should be particularly useful. They are the Stigler article, a modern textbook view of welfare economics from Hal Varian (Chapters 30 & 32), and Alexander Gray’s overview of the early Austrian school approach to marginalist analysis.

The final three readings for this week raise questions about the fundamentals of neoclassical economics. These post-1970s writings by Kaldor, Morgenstern, and Sen point to worrisome cracks in the neoclassical foundation. Kaldor finds equilibrium analysis leading down a dead-end path, Morgenstern finds no fewer than thirteen disquieting flaws in the neoclassical story, and Sen, looking at the standard, neoclassical depiction of “rational economic man” sees instead a “rational fool.”

**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.

**Details to note:** The questions below will help you focus on essential details of this week’s material. Please work on them before you meet with your preceptor.

1. How do Jevons and Menger alter the theory of value?
2. Why is Marshall’s “scissors analogy” so important?
3. What does Marshall mean by “quasi-rents” and why is the rent associated with land no longer so unique in Marshall’s theory?
4. What is meant by the functional distribution of income? The personal distribution of income?
5. How does J.B.Clark generalize the theory of diminishing returns? What are the implications for a Marxian concept of exploitation?
6. Why is Pigou’s distinction between a nation’s economic welfare and its national income important? Why are the two separate in Pigou’s view? How does Pigou’s analysis compare with the classical focus on the income allocated to land, labor and capital?
7. What does Pigou mean by the distinction between marginal social and private net products? What is the importance of this distinction?
8. What tax rule does Pigou suggest when marginal private net product diverges from social net product? Does such a tax lower national economic welfare?
10. Hal Varian provides the modern-day, standard textbook version of intermediate microeconomic theory. What are the first and second laws of welfare economics according to Varian? Why are they important? What aspects of early neoclassical
analysis are lost in these chapters? What aspect of early neoclassical thought are retained? Does time play a large role in Marshall’s analysis? In Varian’s?

11. To what extent do the post-1970 writings of Kaldor, Morgenstern and Sen suggest a crisis in economic theory? Are minor fixes sufficient or is a major revamping of the theory required? Do you view these problems as fatal flaws or slight imperfections?
Week 7

The Nature of Capitalism

Part A:

Is Free Market Capitalism Inherently Unstable?

Keynes:
John Maynard Keynes, *The General Theory* Chapters 1-3, 8-14, 17-19, 21, 22, 23, 24
James Tobin *Price Flexibility* ER and “Interview with James Tobin”
Joan Robinson, “Keynes Today” (Moodle) & “Keynes and Ricardo” (Moodle)
Hyman Minsky, “Financial Instability Hypothesis: An Interpretation of Keynes…” (Moodle)

Schumpeter and Creative Destruction
Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (1942) Ch. 1-4, Ch. 6-8, 13, 14
Joan Robinson “Review of Capitalism, Socialism, and Democracy” (Moodle)

Monetarism, Rational Expectations and Real Business Cycle Theory
On Monetarism, Rational Expectations and Real Business Cycle Theory (Hard Copy Reserve at Olin Library)

Modern-Day Relevance of the Macroeconomic Debates:
"Deflation Danger: Of Debt, Deflation & Denial" (Oct 12, 2002) *Electronic Reserve*
John Cassidy, *After the Blowup* (Moodle)
James Crotty, “Slow Growth, Destructive Competition, and Low Road Labor Relations: A Keynes-Marx-Schumpeter Analysis of Neoliberal Globalization” (Moodle)
Krugman, “How Did Economists Get It so Wrong?” *Moodle*
**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. Unfortunately, as Keynes died in 1946, others were left to speculate on how he would have applied and extended his theory to more recent economic developments. 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: one speaking to us from the General Theory, one grafted on to the neoclassical model by the “neoclassical-Keynesian synthesis” of J. R. Hicks (1904-1989), and the one emerging from the “Post-Keynesians,” modern-day interpreters who reject the neoclassical-Keynesian synthesis. The latter school is represented in your readings by Hyman Minsky (1919-1996) and by Joan Robinson (1903-1983), a well-known contemporary of Keynes. Although the Hicksian interpretation of Keynes is the model that entered the text books, it is that very same approach that is labeled “Bastardized Keynesianism” by Joan Robinson. Nobel-prize winner James Tobin also criticizes the Hicksian interpretation of Keynes. In fact, Hicks himself, in his later years, acknowledges that his neoclassical-Keynesian synthesis distorts some important components of Keynes’ message.

The very brief readings from the book edited by Baily introduce you to the monetarists, the real business cycle (RBC) theory, and the theory of rational expectations (RE). From Friedman’s monetarist perspective, the primary source of economic instability is mistaken activist policy. If the central bank would simply maintain the growth of the money supply at a fixed rate (say 5% or so), the free market system would naturally produce stable prices and full employment. Friedman’s monetarist rejection of activist fiscal and monetary policy is echoed by RBC theory. That same anti-activist view characterizes the RE approach, a model sometimes described as “inflation-augmented Phillips curves on steroids.”

In light of the financial crisis of 2008, I have added multiple readings that illustrate the modern-day relevance of the early macroeconomic debates. Try to use these readings to reflect on the legacy of Schumpeter, Keynes and Friedman.
**Essay Assignment:** For this week’s essay, please comment on the statement below. (Remember that you are welcome to agree with some parts of the statement while disagreeing with others.)

 Free-market capitalism is inherently unstable. However, this instability arises from factors that should not be countered by macroeconomic fiscal and monetary policies. Attempts at stabilization will not only be futile, but will have negative consequences. We must simply accept the instability as a part of life in a free-market, capitalist system.

**Details to note:** The questions below will help you focus on essential details of this week’s material. Please work on them before you meet with your preceptor.

1. Do policies of wage cutting and deflation reduce or deepen unemployment according to Keynes? According to standard neoclassical theory?
2. What causes instability in capitalist systems according to Schumpeter? According to Keynes?
3. How should governments respond to economic instability according to Schumpeter? Keynes?
4. Is the growth of large firms with considerable market power a problem according to Schumpeter? Would he prefer to move back to a world that more closely resembles a perfectly competitive market?
5. What aspects of the Austrian school of economics do you find in Schumpeter’s work?
6. What role does entrepreneurship and investment behavior play in Schumpeter? In Keynes?
7. What is the neoclassical-Keynesian synthesis? What is the ISLM model? What is Robinson objecting to when she rejects this grafting of Keynes onto a neoclassical model?
8. What aspects of Keynes’ analysis from *The General Theory* seem particularly important for Minsky’s work?
9. Was Keynes really advising that government hire workers to bury cash and then pay the workers to dig it up again? What was his point?
10. What was the point of the beauty-contest analogy in Keynes’ *General Theory*?
11. Does the monetarist theory from Milton Friedman mesh with neoclassical analysis? With Austrian economics? With the quantity theory of money?
12. What is the liquidity trap, and why did Keynes believe that monetary policy would be useless during an economic depression?
Week 8

The Nature of Capitalism

Part B:

Is the Consumer Sovereign Under Free-Market Capitalism?

Institutional and Evolutionary Economics:
Thorstein Veblen, *The Theory of the Leisure Class* (1899), Chs. 1-4, 7, 14
John R. Commons, “Institutional Economics,” *AER*, vol. 21 (1931), pp. 648-657
Wesley Mitchell, “Commons on Institutional Economics” (1935) Moodle
Galbraith "Myth of Consumer Sovereignty" (1958) & "Countervailing Power" (1952)

The Chicago School of Economics:
Friedman, “Who Protects the Consumer,” 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

Secondary Sources:
Juliet B. Shor, “In Defense of Consumer Critique” Moodle
Jeff Madrick, “Milton Friedman: Not a Man for All Seasons.” (Moodle)
Robert Van Horn and Philip Mirowski, “The Rise of the Chicago School…”pp. 139-180 in The
Selected reviews of Amartya Sen’s Capability Theory (Moodle)
Background: According to the concept of consumer sovereignty, the market delivers what consumers want. But we are left to wonder how those wants are determined and, once they are satisfied, whether individuals are happier. Does economic growth translate into more satisfied lives? The readings in this week raise questions about what the capitalist system delivers. Thorsten 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.

While Veblen provides an unsettling view of customs, conventions and human evolution, another representative of the institutional school, John R. Commons, describes the more positive function that institutions play in economic life. Commons explains that institutions such as grievance procedures and informal norms of behavior provide a low-cost method of resolving disputes. Formal and informal rules, regulations, and conventions surround every-day economic interactions. They allow economic activity to proceed without the disruption of costly court battles and unpredictable, open, conflict. As such, they form an essential part of economic life. The reading by Wesley Mitchell provides an admiring and insightful overview of Commons’ institutional approach.

John Kenneth Galbraith (1908-2006), also known for his institutional economics, weighs in on the concept of consumer sovereignty and finds it wanting. He notes the powerful role of advertising in shaping consumer perceptions of their needs.

In another classic piece, Galbraith argues that the performance of modern-day capitalism is typified by continuing tensions among distinct “countervailing powers.” Consumer groups, for example, can offset the influence of advertising. Likewise, unions, according to Galbraith, represent a countervailing power that is necessary to offset the dominance of corporate employers.

Although neoclassical theory focuses on the sovereign power of consumers, the theory 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.

Swedish Nobel laureate Gunnar Myrdal (1898-1987), most famous for his book on U.S. race relations, An American Dilemma (1944), is also represented in this week’s readings. A member of what came to be known as the Stockholm school of economics, Myrdal provides yet another perspective on the value of the institutional approach. When Myrdal was given the Nobel Prize, the committee simultaneously awarded the honor to Friedrich Hayek (1899-1992). As is clear from the readings for this week, Hayek’s faith in free-markets contrasts starkly with Myrdal’s view that the state can do much to enhance opportunities for individuals and societies.

While the institutionalists are skeptical of unconstrained, free market capitalism, the representatives of the Chicago school sing its praises and find more to fear from government...
intervention than from unimpeded markets. Insights into this policy-phobic view appear in this week’s video of Milton Friedman as he debates the wisdom protecting the consumer. According to Friedman, these efforts simply raise costs and subvert consumer choice. Another representative of the Chicago tradition, Stanley Lebergott (1918-2009), harks back to a similar faith in free market capitalism. Lebergott claims that the tendency of competitive-markets to respond to consumer choice serves as the basis for highly favorable outcomes. Just look at what the free market has achieved!

In the secondary sources for this week, the Lebergott perspective is challenged by Schor and several others. Also among that group of secondary sources, you will find critiques of the Chicago school, an introduction to behavioral economics, and reviews of work by Amartya Sen. Sen asks whether the point of economic progress is to maximize utility or to maximize human capability. His book *Reexamining Inequality* explains the advantages of adopting the capability approach. Remember that we encountered Sen previously. In week 6, we read “Rational Fools: A Critique of the Behavioral Foundations of Economic Theory,” in which Sen offered a penetrating critique of the standard view of “economic man” embodied in neoclassical analysis. That view is closely tied to this week’s material on Sen’s alternative to utility analysis. Sen’s capability theory suggests a new perspective on issues of economic development and well-being. Behind the capability approach is a definition of economic freedom that is quite different from the laissez-faire definition put forth by Milton Friedman and 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.**

**Details to note:** The questions below will help you focus on essential details of this week’s material. Please work on them before you meet with your preceptor.

1. What aspects of economic evolution does Veblen see as “barbaric?”
2. What are some examples of conspicuous consumption, and why is conspicuous consumption a problem according to Veblen?
3. According to Commons, what gives rise to the web of rules and regulations that we live by? Why does he see these institutions and conventions as useful rather than problematic?
4. What traits of institutional economics make it starkly different from the neoclassical approach? How does it compare to the approach of the early classical economists?
5. Name some of the consumer protections that Friedman derides and explain his antipathy for the consumer protection agency and the food and drug administration. How would Galbraith respond to Friedman on this issue? What central points would July Schor provide?
6. What is Milton Friedman’s definition of economic freedom? Explain McPherson’s evaluation of that definition? How does Sen’s definition of economic freedom compare to that of Milton Friedman and the Chicago school?

7. Does the behavioral economics, as summarized in the reading by Lambert, focus more on individual or group behavior? Does it bear more resemblance to neoclassical economics or to institutional economics? What aspects seem closer to the institutional approach? What traits seem more in line with the neoclassical approach?