CHAPTER 1
A LOOK AT THE LANDSCAPE

There can be no understanding of economics without an awareness of its history; in the academic world this is acknowledged. Yet the history of economic ideas has not been a popular or always rewarding field of study, and the reasons are not hard to find. There are many books on the subject of no slight scholarly accomplishment; all economists owe their authors a major debt. But in searching for academic excellence or in protecting against professional criticism, even the best scholars have spread themselves widely over the important and also the expendable. They cannot have it said that this point or that made by Adam Smith or David Ricardo or Karl Marx was missed. In consequence, the really controlling ideas, right or wrong, have frequently been lost in the mass; what continues to be of interest or relevance in our time has been obscured.

And there is a yet more serious problem: much and perhaps most of this writing has assumed that economic ideas have a life and development of their own. Progress in the subject matter is made in the abstract; one scholar shows a compelling talent for innovation, and others amend and improve on his work, all without close reference to the economic context.

In fact, economic ideas are always and intimately a product of their own time and place; they cannot be seen apart from the world they interpret. And that world changes—is, indeed, in a constant process of transformation—so economic ideas, if they are to retain relevance, must also change. In the last one hundred years the great corporate enterprise, the trade union, depression
and war, increasing and increasingly dispersed affluence, the changing nature of money and the new and enhanced role of the central bank, the declining role of agriculture with the counterpart urbanization and growth of urban poverty, the rise of the welfare state, the newly assumed responsibility of the government for overall economic performance, the emergence of socialist states, have all dramatically altered, even revolution-ized, economic life. As the subject matter of economics has changed, so necessarily has the subject.

But, at best, change in economics has been reluctant and reluctantly accepted. Those who benefit from the \textit{status quo} resist change, as do economists who have a vested interest in what has always been taught and believed. These are matters to which I will return.

Further, it must be said, much past writing on the history of economic ideas has been aggressively dull. There are a significant number of learned men and women who hold that any successful effort to make ideas lively, intelligible and interesting is a manifestation of deficient scholarship. This is the fortress behind which the minimally coherent regularly find refuge.

The foregoing paragraphs will suggest my purpose in this history. I seek to see economics as a reflection of the world in which specific economic ideas have developed—the ideas of Adam Smith in the context of the early trauma of the Industrial Revolution, those of David Ricardo in its later, more mature stages, those of Karl Marx in the era of unbridled capitalist power, those of John Maynard Keynes as a response to the unrelenting disaster of the Great Depression. Where, as before the rise of capitalism or in the subsistence economies of our own time, there was—or is—little that is interesting and even less to be discovered in economic life, I accommodate to this fact. Economic ideas are not very important when and where there is no economy.
I am not averse, on occasion, to peripheral detail in the development of economic thought if it adds in an interesting way to the story. But I am principally concerned to isolate and emphasize the central idea or ideas of the specific author, school or time and to focus, above all, on those which have a continuing and modern resonance. That which was transitory I try scrupulously to ignore, as also any scholarship in the main-stream that did not greatly alter or deflect that stream.¹

Because this is a history of economics and not merely of economists and their thought, I go beyond the scholars and scholarship to the events that shaped the subject. And as necessary to the events that shaped the history of economics when there were no economists. The last century in the United States, as I will tell, was a time of intense economic discussion—of banking and banking policy, money and monetary policy, international trade and tariff policy. But until well into its last decades there were almost no economists to lead or even to participate in that discussion. To confine myself in this history to formal economic expression would be to ignore a great and sweeping current in the flood of economic ideas.

I have said that in the past the writing on this subject, or much of it, has been dull, sometimes ostentatiously obscure. I cannot think this necessary. The central ideas and their context are alive with interest; they have retained mine for over half a century, since I first encountered them in 1931 at the University of California at Berkeley under the guidance of two persuasive scholars, Leo Rogin and the stately Carl C. Plehn.² I

¹ I do not, as one example, deal at any length with John Stuart Mill, a truly major figure but one wholly in the mainstream. And I pass over the great German writers on economic history in the last century who had little effect on its course, although here I should confess that I also suffer from a lack of motivating interest.

² Instruction by or association with four older Harvard teachers—C. J. Bullock, a man of powerfully pre-Cambrian convictions, A. E. Monroe, Overton
would like to think that they can be as absorbing to others. Nor do these matters challenge understanding. As I have urged on earlier occasions, there are no useful propositions in economics that cannot be stated accurately in clear, unembellished and generally agreeable English.

I must now say a word on the practical uses of history—history such as this. The claim that I make is one that should be made with care.

As economics is practiced, all will agree, it is obsessively concerned with the future. Every month in the United States men and women of assumed wisdom fan out over the Republic to give their views on the economic prospect, as also on the social and political outlook. Thousands turn out to hear them. Business executives or their companies pay heavily for the privilege of listening and, if wise, treat the knowledge so gained with intelligent disbelief. The most common qualification of the economic forecaster is not in knowing but in not knowing that he does not know. His greatest advantage is that all predictions, right or wrong, are soon forgotten. There are too many of them, and if the elapse of time is considerable, not only the memory of what was said will be gone but so will an appreciable number of those making or hearing the predictions. As Keynes observed, “In the long run we are all dead.”

If indeed economic knowledge were impeccable, the economic system as it now exists in the nonsocialist world would not survive. Were it possible for anyone to know with preci-
sion and certainty what was going to happen to wages, interest rates, commodity prices, the performance of different firms and industries and the prices of stocks and bonds, the one so blessed would not give or sell his information to others; instead, he would use it himself, and in a world of uncertainty his monopoly of the certain would be supremely profitable. Soon he would be in possession of all fungible assets, while all contending with such knowledge would succumb. Perish the thought that anyone thus favored should be a socialist. The modern economic system does, in fact, survive not because of the excellence of the work of those who forecast its future but because of their supremely reliable commitment to error.

Yet there is a redeeming possibility: we can attempt to understand the present, for the future will inevitably retain compelling aspects of what now exists. And the present, in turn, is profoundly a product of the past. As the ensuing pages will tell, what we now believe in economics has deep roots in history. Only as these are perceived—only as we view the past as regards prices and production, employment and unemployment, the distribution of income and wealth, saving, banking and investment, the nature and promise of capitalism and socialism—can the present, and therewith, in some slight measure, the prospect, be understood in any appreciable way. To that understanding these pages are addressed.

But not exclusively. Not everything is to be measured by a stern, utilitarian yardstick. There is, or should be, in these matters room for enjoyment for the sake of enjoyment. The history with which I here deal is, I like to think, interesting for its own sake. There is much about it, in both its facts and its absurdity, that may challenge and delight the curious mind. I would be sorry, indeed, were there no such response to these pages.

A word must now be said on the nature and content of economics itself.
“Political Economy or Economics,” said Alfred Marshall, the great University of Cambridge teacher whose textbook was the light and sometimes the despair of many students of the college generations early in this century, “is a study of mankind in the ordinary business of life.”3 This allows of a wide field; not much in human behavior can be excluded as irrelevant. For practical purposes, however, the scope of inquiry and concern must be narrowed to the questions most commonly asked. And we must keep in mind that these questions change greatly in urgency with the changing context and over the passing years.

Central to all economic analysis and instruction is the question of what determines the prices that are paid for goods and for services rendered. And how the proceeds from this economic activity are distributed. And what determines the share going to wages, interest, profits and, although less distinctly, the rent of land and other fixed and immutable objects used in production.

Over most of the modern life of economics these two subjects, the theory of value and the theory of distribution, have been the ultimate concern. It is still thought that economics came of age when these two matters were tackled systematically in the latter part of the eighteenth century, most notably by Adam Smith. But here, at the very center of the subject, there has been formidable change with the changing context. In earliest times, as we shall presently see, neither the factors determining prices nor those setting the levels of wages, interest and other distributive shares were of much relevance. With production and consumption centered on the household, there was no necessity for a theory of prices; with slaves there was no compelling need for a theory of wages.


In very recent times, although the change has not been conceded by the more scrupulously conventional economists, the importance of price determination and of the factors setting the distributive shares has once again declined. Prices in a poor or meager society are the prices of grim essentials; the price of bread does much to determine how much people will eat. In a generally affluent world, by contrast, if the price of bread is high, then something else of no great significance is forgone in order to pay for it. Or something else is consumed. Many purchases and much ensuing consumption are now inconsequential; so, accordingly, as compared with past times, are the prices charged and paid. Again the importance of seeing matters in their context.

Along with what determines prices and the distributive shares go the other central questions. The first is how income distributed as wages, interest, profits and rent is diffused or concentrated—how equitable or inequitable is the income distribution. The explanations and rationalizations of the resulting inequality over the centuries have commanded some of the greatest, or in any case some of the most ingenious, talent of the economics profession. In nearly all of economic history most people have been poor and a comparative few have been very rich. Accordingly, there has been a compelling need to explain why this is so—and, alas, on frequent occasion, to tell why it should be so. In modern times, with rising and increasingly general affluence, the terms of this subject have greatly changed. The distribution of income remains, however, the most sensitive business with which economists deal.

Next, economics is concerned with what leads to better or worse economic performance in the aggregate. The earlier question was what damaged or improved the state of trade, as it was then called. The current reference is to what depresses or stimulates economic growth. And what causes fluctuations, rhythmic
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or otherwise, in the production of goods and services. Emerging here also is the now urgent, though relatively new, problem of why it is impossible in the modern economy to find useful employment for so many people who are willing to work. In the 1800s, unemployment was scarcely discussed; only in this century has the difficulty of achieving an adequate supply of goods given way to the far greater, far more discussed difficulty of finding adequate employment for as many people as possible in the production of goods.

Along with all these questions goes consideration of the institutions that are involved in economic activity—in the production and pricing of goods and services and the distribution of the proceeds. Here enters the role of the business enterprise, great and small. And of banks and central banks and of money in its diverse forms and functions and the special problems of international commerce. And of government and the policies it pursues, as these bear in greater or lesser measure on all of the aforementioned processes and institutions.

Finally, and less specifically, there is the larger political and social framework in which economic life proceeds. What of the nature and efficacy of capitalism, free enterprise, the welfare state, socialism and communism? With these matters, it may be noted, the mood of economics undergoes a rather major change. It ceases to be a dispassionate, putatively scientific subject and becomes a theater for strongly expressed argument. The most detached scholar, the most avowedly practical business executive, the politician least subject to any confining intellectual process, all react with visible, even violent, emotion. Such reaction this history will, nonetheless, seek to avoid.4

4 Yielding, not unwillingly, to my publisher and editor, I have subtitled this book A Critical History. Any competent history, as all will agree, involves criticism or, in any case, critical judgment. But I am here more than marginally concerned to identify error and, I might add, to have the enjoyment that comes from doing so.
All these questions, the solutions to them that are avowed and the courses of action, public and private, that are urged are the subject matter of the history of economics. The obligatory starting point for any study of this history is, needless to say, in the classical world.