



SCHOOL OF ECONOMIC AND FINANCIAL STUDIES

ECON 356 HISTORY OF ECONOMIC THOUGHT

Semester 1, 2004

Student Resource Centre
Division of Economic & Financial Studies
MACQUARIE UNIVERSITY

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Aims of the unit

This unit covers the major developments in economic analysis since the eighteenth century. The main emphasis is on tracing the historical evolution of modern economic theories, but the philosophical and socio-economic factors which have influenced the development of economic ideas are also given importance.

The **aims of the unit** are:

- to acquaint students with the major contributions to the evolution of economic analysis and the main scientific controversies which have arisen in the course of this evolution;
- to enable students to analyse the reasons for changes in economic thinking so that they acquire a deeper insight and perspective on the nature of modern economics.

How to pass the unit

In order to succeed in this course you will need to -

- Attend all seminars. Seminar attendance and presentation are compulsory. Non-attendance will result in the deduction of 1% of the available marks. Non-participation in the group presentation will result in the deduction of 5% of the available marks. Excuses will be accepted only in case of genuine illness or emergency. **If you think you may not be able to attend all seminars (for employment reasons, for example) withdraw from the course NOW.**
- Submit a short paper (3-4 pages) based on your section of the seminar presentation.
- Submit a 1500-2000 word essay on one of the topics supplied.
- **Pass** the final exam. If you do not pass the final exam, you cannot pass the subject. This means that you will need to obtain **at least a PC grade** on your final exam.

THERE IS NO SET TEXTBOOK FOR THIS COURSE. STUDENTS ARE ADVISED TO CONSULT A RANGE OF SOURCES FOR EACH TOPIC, SINCE WIDELY DIFFERING INTERPRETATIONS WILL BE FOUND IN EACH OF THEM. LEARNING THE CONTENTS OF THE LECTURES OR ANY ONE TEXT BOOK WILL NOT BE SUFFICIENT TO PASS THE COURSE.

Course Calendar

Week	Lecture	Seminar	Other
1	Introduction		
2	Physiocrats	Preliminary meeting	
3	Smith		
4	Malthus & Ricardo	Smith	
5	Review of Classical		
6	Marx	Malthus & Ricardo	
<i>Easter Recess</i>			
7	<i>Anzac Day holiday Monday – no lectures this week</i>		
8	Marx	Marx	Essay due Tuesday 4 May
9	Marginalism		
10	Marginalism	Marginalism	
11	Institutionalism		
12	Keynesianism	Institutionalism	
13	Revision week		Exams begin 16 June.

Seminar Topics

NOTE: When preparing seminar presentations, first use the ***focus questions*** to collect relevant data and then use the data to answer the main question.

Week 2 (begins 8 March) – Preliminary meeting

Students will be assigned to **discussion groups**. These groups should meet regularly outside class hours as a forum for students to discuss issues raised in lectures and readings, and to prepare for seminar discussions and presentations. Each group will be assigned one 30 minute seminar presentation during the semester. Following the presentation other members of the seminar will be expected to contribute to a discussion of the points raised in the presentation.

Week 4 (begins 22 March) – Adam Smith

Laissez-faire principles are often justified today by reference to Adam Smith. To what extent are his ideas relevant to economics today?

Focus questions:

- What does Smith mean by the 'division of labour'? How did the DL originate and what is its relation to economic progress? What were the advantages and disadvantages of the DL? Can we use this concept of DL to apply to economies beyond the stage of simple manufacturing of Smith's era?
- What was Smith's view of human nature? Is it possible to reconcile the view expressed in *The Theory of Moral Sentiments* with the view in *Wealth of Nations*? How do you think this view influenced his economic theory?
- What did Smith mean by the 'invisible hand'? Under what circumstances did Smith condone government intervention and was this consistent with his principle of laissez-faire?

Week 6 (begins 5 April) – Ricardo and Malthus

Explain and evaluate the different explanations offered by Ricardo and Malthus on the prospects for economic stagnation and recovery.

Focus questions:

- How did Malthus' population theory explain the level of real wages?
- How did Malthus explain the existence of 'gluts'?
- How did Ricardo explain the division of national income between wages, profit and rent? Why did he think that this division showed a tendency to produce stagnation in the economy?
- What was the importance of the Corn Laws in the debate between Ricardo and Malthus? Was Marx correct in describing Malthus as a 'lackey of the landlords'?

Week 8 (begins 3 May) – Marx

Discuss Marx's analysis of periodic economic crises of the capitalist economy and its relationship to his prediction of the eventual demise of capitalism?

Focus questions:

- What did Marx mean by the term 'exploitation' and what was the 'rate of exploitation'? How did 'class struggle' determine the rate of exploitation? How did changes in the rate of exploitation contribute to the development of crises?
- What were 'constant' and 'variable' capital, and the 'organic composition of capital' and how did they relate to Marx's theory of profit? What led Marx to believe that the rate of profit would inevitably fall? Was he right?
- How would the problem of effective demand play a role in bringing about crises?
- What, in Marx's view, would be the impact of economic crises on the capitalist economy and society?

Week 10 (begins 17 May) – Marginalism

Did the rise of Marginalism constitute a scientific revolution?

Focus questions:

- What were the major achievements of the Marginalists compared with their Classical predecessors? Should we necessarily regard these as scientific advances? Do you consider that there were any valuable insights or theoretical propositions in Classical Political Economy that had to be abandoned by the Marginalists?
- How would you define a revolution? Does a revolution mean a complete break with the past? What is the difference between evolution and revolution? Why do you think revolutions happen? Do you think Kuhn's views on censorship in science are relevant to economics?

Week 12 (begins 31 May) – Institutionalism

Explain and evaluate the institutionalist critique of neo-classicism (marginalism).

Focus questions:

- What was the basis of Veblen's critique of the 'hedonistic calculus'? How did he relate his ideas about 'basic instincts' to the cultural and institutional development of different societies? What are the implications of culturally-regulated activity for the notion of 'consumer sovereignty'?
- What was Veblen's conception of 'capital' and how did it differ from that of Clark and the other Neo-classical theorists? What was the basis of Veblen's criticism of the 'marginal productivity theory of capital' theory of profits? Was he right in regarding that theory as no more than an ideological justification for the predatory activities of the capitalists?
- Does Galbraith's theory of the domination of economic life by the requirements of the 'technostructure' provide us with a more realistic picture of modern economies than the individualism of the Neo-Classicals?

Assessment

Final examination	70%
Essay	15%
Seminar paper	5%
Seminar attendance and presentation	10%

The **examination** will consist of a two hour paper in which students will be required to answer three questions, including at least one on each of the three Parts of the course.

Essay will be of 1500-2000 words. Essays are due on **Tuesday 4 May**. Excessive length will be penalised.

Essays are to be delivered to assignment boxes in ERIC (Resource Centre) before closing time on that day. Extensions of time may be granted for medical or compassionate reasons, at the discretion of the lecturer in charge. Written evidence of the extension must be attached to the essay when it is submitted.

Late essays (without an extension) will be penalised at the rate of 1% of the available marks per day (so an essay that is 15 days late will receive no marks).

Essay topics to be announced separately.

Seminar presentations and papers. These involve two elements:

(1) a group presentation in which the task of presenting different aspects of the topic is shared among all members of the group;

(2) preparation of a seminar paper based on your individual contribution. This paper must be submitted to your tutor at the seminar. Papers must contain a list of references (including websites) to sources of information and ideas used in the presentation. Use footnotes.

Seminar attendance and presentation are compulsory. Non-attendance will result in the deduction of 1% of the available marks. Non-participation in the group presentation will result in the deduction of 5% of the available marks. Excuses will be accepted only in case of genuine illness or emergency. **If you think you may not be able to attend all seminars (for employment reasons, for example) withdraw from the course NOW.**

Factors taken into consideration in awarding marks for seminar papers and essays.

- the work is **properly footnoted** and contains a **list of references** that you have consulted (including web addresses). Failure to acknowledge sources of information and ideas at every stage will be severely penalised by the marker as this practice amounts to **plagiarism**.
- it refers to some of the original works relevant to each topic;
- it refers to a range of secondary works which discuss the set topics;
- you analyse the differences in emphasis and interpretation between the originals and the secondary texts;

- you demonstrate basic knowledge of the historical and intellectual context in which new ideas arose;
- you show an understanding of the main analytical tools used by the economists being studied, as well as their limitations;
- you are able to construct an argument in response to the essay topic or exam question. It is not enough to regurgitate "everything I know about (say) Adam Smith". Your written work will be marked on the basis of its **focus** on the question, **structure** and **coherence** of argument, as well as evidence of **independent thought**.

Lecture Synopsis and Reading Guide

*NB: These reading guides are not intended to be exhaustive. There are numerous other useful texts which students may consult. In addition, students should make use of **The New Palgrave: a dictionary of economics** (New York, Stockton Press, 1987) in the Reference section of the Library. In preparing essays students should also be prepared to consult relevant journals.*

Week 1. Introduction

In this introductory week the lecture will cover two major issues. Firstly, we note that, as a result of the way economics has developed over the last two centuries, there is a certain lack of consensus among economists over its philosophical and methodological foundations. This lack of consensus leads to differing views about the real value of economics, as practised today, for society and to a vigorous debate about what, if anything, needs to be done to improve the relevance and usefulness of economic theory. Over the course of the next twelve weeks, we will examine the origins of these differences in earlier economic thinking as well as some of the disparate alternatives offered. Secondly, there will be a brief outline of the main trends in economic thought prior to the 18th century in order to explain why, in Week 2, the main discussion of the development of economics as a distinct discipline begins with the Physiocrats. In particular we will look at Mercantilism and why, by the mid-18th century, it was increasingly being regarded as a dead end.

Reading:

Robert L. Heilbroner and William Milberg, *The Crisis of Vision in Modern Economic Thought*, Cambridge University Press, 1995, pp. 1-24

Ernesto Screpanti & Stefano Zamagni, *An Outline of the History of Economic Thought*, Oxford, Clarendon Press, 1995, chapter 1

Part 1: The Development of Classical Political Economy

Part I, comprising 4 weeks, examines the development of Classical Political Economy up to the middle of the 19th century. We begin with the Physiocrats, in the mid-18th century, because they represent a marked break from earlier traditions, particularly Mercantilism which had dominated economic thinking for the previous two centuries. The rise of Physiocracy coincides with the beginning of major changes in European societies and in their economic structures which gave rise to philosophical notions of individualism (opposed to the concentration of economic power in the hands of monarchs and their agents) and laissez-faire (opposed to the protection of monopoly and privilege). It also represents a high point in the movement towards scientific enquiry as an end in itself, a movement which had been kicked off by the Italian Renaissance and the French Enlightenment.

Because of its more advanced level of economic development, Britain became the leading centre of economic thought in this period and produced several of the most important thinkers in the entire history of economic ideas. The two outstanding thinkers of the late 18th and early 19th centuries were Adam Smith and David Ricardo to whom all economists, regardless of their position in the various controversies surrounding the discipline, pay the highest respect. Smith was writing in the early stages of the Industrial Revolution and his work contains both a strong advocacy of the benefits of free markets and the most optimistic account of capitalism's progress. Ricardo, writing several decades later, while considering industrial capitalism in a positive light, adopted a more logically rigorous approach to his analysis and was also more concerned with the periodic tendency to stagnation which was by then apparent. While these two approached their subject matter in

different ways, they have in common a number of key elements that can be regarded as the core of Classical Political Economy. These elements include a concern with the dynamics of the capitalist system, adherence to the labour theory of value (despite perceiving problems with it), belief that laissez-faire is the best policy and that the distribution of income between the main social classes (labour, capital and landowners) is the principal determinant of economic dynamics.

A number of other major political economists, including Malthus, John Stuart Mill and Nassau Senior, made important contributions, although their views are more controversial among later economists. By the middle of the 19th century it was apparent that a major division was emerging within the discipline as to the direction in which economic theory should develop. This division broadly reflected different visions of the capitalist system and its capacity to produce social justice. We will examine the theoretical and philosophical bases of these differences and how they ultimately led to the development of the contending schools of thought that will be discussed in Parts 2 and 3 of the course.

Week 2. The Physiocrats

Originals:

Excerpts published in R.L. Meek, *The Economics of Physiocracy*, Allen & Unwin, London, 1962

Other relevant sources:

E.K. Hunt, *History of Economic Thought: A Critical Perspective*, NY, Harper Collins, 1992, pp. 37-46

I. H. Rima, *Development of Economic Analysis*, Homewood (Ill.), Irwin, 1991, ch. 4

Pressman, Steven, *Fifty Major Economists*, London & NY, Routledge, pp. 10-17

Eric Roll, *A History of Economic Thought*, London, Faber & Faber, 1954, ch. 3

Screpanti & Zamagni, pp 43-48

Week 3. Adam Smith

Originals:

Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, (any edition) chs. 1-10

Other relevant sources:

Hunt, ch. 3

Meek, R.L., *Social Science and the Ignoble Savage*, Cambridge & New York, CUP, 1976, ch. 4

Meek, Ronald, *Studies in the Labour Theory of Value*, London, Lawrence & Wishart, 1973, ch. 2

Pressman, Steven, *Fifty Major Economists*, London & NY, Routledge, pp. 17-26

Rima, ch. 5

Roll, ch. 3

Screpanti & Zamagni, ch 2.2

Week 4. Malthus and Ricardo

Originals:

Ricardo, David, *The Principles of Political Economy and Taxation*, various editions, chs 1-6, 19, 21, 31

Malthus, *An Essay on Population* (any edition)

Other relevant sources:

Hunt, chs 4, 5

Keynes, J.M., *Essays in Biography*, Mercury, London, 1961, pp. 98-124

Pressman, pp. 29-32, 35-40

Rima, chs 6, 7

Screpanti & Zamagni, ch 3.1

Meek R.L., *Marx and Engels on Malthus*, London, Lawrence & Wishart, 1950 (State Library only)

Week 5. Classical Political Economy: the widening chasm

Originals:

Mill, J.S., *Principles of Political Economy*, various editions, esp. Book IV

J.S. Mill, *Autobiography*, London, Oxford University Press, 1971

Other relevant sources:

Hunt, chs 6, 8

Pressman, pp. 26-28, 33-35, 44-47

Rima, chs 8, 9

Screpanti & Zamagni pp. 82-86; 93-98; chs 4.1 and 4.2

Part 2: The Marxist Critique of the Classical System

Marxism represents the first of the major strands developing out of classical political economy that we examine. Although most of his work on political economy was carried out in England, Marx also represents the beginning of a shift away from British dominance of the discipline. His thought is very strongly influenced by German philosophy and French socialism, a basic understanding of both of which is essential to comprehending his approach to political economy. A great deal of his actual economic theory draws heavily on the work of Smith, Ricardo and other British political economists, and in this sense he can be regarded as the last of the major Classical Political Economists. But he also adopts a highly critical approach, pointing to the limitations of those two great economists, particularly with regard to their inconsistent approach to the labour theory of value and what he sees as a complacent attitude towards the plight of the poor. He is especially contemptuous of some of the lesser known figures (the 'vulgar economists') whom he regards as having set economics on the wrong path and who are, according to him, little more than apologists for an economic system which cannot survive in the long term.

The first lecture examines the continental influences on Marx's thought as well as his background in Germany and his eventual arrival in England as a political refugee. After that we begin to look at the main elements of his economic theory of the capitalist system. We examine the continuities and differences from earlier developments, and the extent to which

Marx's work can be said to have any relevance today. A major focus is on Marx's theory of economic crisis, his critique of Say's Law (which had been adhered to by Malthus, Ricardo and their contemporaries) and the ways in which he believed that the contradictions inherent in capitalist economies would inevitably lead to disequilibrium and crisis.

Weeks 6 and 8. Karl Marx (no lectures in week 7)

Originals:

Marx, Karl, *Wage Labour and Capital*, (any edition)

Marx, Karl, *Value, Price and Profit* (any edition)

Marx, Karl, *Capital*, vol 1 (any edition), ch. 10; vol III, chs 13-15

Other relevant sources:

Dobb, Maurice, *Political Economy and Capitalism*, New York, International Publishers, 1945, ch. 4

Hunt, ch. 9

Lenin, V.I., *Karl Marx* [1914], Foreign Languages Press, Beijing, 1976

McFarlane and Beresford, *A Manual of Political Economy*, chs 3-11

Pressman, Steven, *Fifty Major Economists*, London & NY, Routledge, pp. 48-52

Rima, ch. 10

Roll, ch. 6

Screpanti & Zamagni ch 4.3

Sweezy, P. *The Theory of Capitalist Development*, New York, Monthly Review Press, 1964, chs 8-12

Part 3: The Marginal Revolution and its Critics

The third part of the course examines developments in economics from 1870 onwards, in the post-Classical era. While many of the economists to be studied drew on elements of the Classical system, they did so in a selective way which led them to take economics in markedly different directions.

The first group to be looked at are the Marginalists or Neo-Classicals. The first group of major marginalist works appeared between 1870 and 1874 in England (W.S. Jevons), Austria (Karl Menger) and Switzerland (Leon Walras) and drew on ideas which, as we will have seen in Part 1, had been developing within the Classical tradition. In 1890, Alfred Marshall produced his *Principles of Economics*, which both changed the name of the discipline and became the dominant textbook in the English-speaking world for decades to come. Probably the major achievement of the marginalists was to overturn the dominance of the labour theory of value and replace it with a logically consistent theory of value based on consumer utility. They are known as Marginalists because they focused on marginal changes in supply and demand resulting in changes in value, thereby resolving some of the contradictions in earlier Classical developments of the idea. Moreover, among some of the Marginalists, opposition to Marx's radical development of the Classical system was clearly a motivation for the change in direction. For those reasons, the work of the Marginalists has often been described as a 'revolution'. However, in rejecting the labour theory of value, the Neo-Classicals were left with a number of problems, notably with regard to the theory of distribution, which they have never been able to solve in a satisfactory way. Nevertheless, this school of thought became dominant in the 20th century, largely as a result of its

dominance in the United States, the world's most powerful capitalist nation.

The second group of economists to be examined in this Part of the course are the Institutionalists. Institutionalism is an alternative American tradition which has its roots in the German Historical School and therefore has only tangential relations to Classical Political Economy. It developed largely as a critical response to Neo-Classicism. Thorstein Veblen is generally regarded as the founder and he devoted a great deal of energy to explaining why the things societies (and by implication individuals) value are determined by culture and institutions, rather than the utility maximising 'hedonistic calculus' favoured by the Neo-Classicals. He also pointed to the flaws in the Neo-Classical theory of distribution, as developed by his former teacher, John Bates Clark. Perhaps because he developed no alternative theory of value, his analysis could not be couched in mathematical terms, and he acquired a somewhat maverick reputation in academia, his work was generally disregarded by mainstream economists, although institutionalism has subsequently been a more influential tradition among radicals and in business studies. More recent developments of institutionalism in the U.S. include the work of J.K. Galbraith, *Radical Political Economy* and the New Institutionalists (who have attempted an integration of institutionalism with neo-classicism). Of these, we look only at Galbraith in any detail since he provides an example of a continuation of Veblen's theoretical attack on the Neo-Classical premises as well as a distinctive and highly influential institutionalist view of the modern corporate world.

Finally, we will examine what has become known as the 'Keynesian Revolution', by comparing and contrasting the work of two prominent figures, J.M. Keynes and Michal Kalecki. Both these economists produced their major studies on the theory of the capitalist economy in the wake of the Great Crash of 1929 and were essentially concerned with the Classical question of instability and dynamics, something that had disappeared from view with the rise of Marginalism. Keynes' major treatise was written as a critique of Marshallian economics, while Kalecki was relatively unfamiliar with neo-classicism, but well versed in the Classics and Marx. The different origins of their ideas produced differences in the way they were, or were not, taken up by others, as well as different predictions about the possibility of eliminating crises from the capitalist environment. However, there were essential similarities in their analyses of the causes of crisis lying in a deficiency of effective demand – an idea which had already appeared in the works of the Physiocrats, Malthus and Marx.

Weeks 9 and 10. The Marginal Revolution

Originals:

Jevons, W.S., *The Theory of Political Economy*, various editions

Other relevant sources:

Baumberger, J. 'No Kuhnian Revolutions in Economics', *Journal of Economic Issues*, XI:1, March 1977, pp. 1-20

DeVroey, M., 'The Transition from Classical to Neoclassical Economics: A Scientific Revolution', *Journal of Economic Issues*, IX:3, September 1975, pp. 415-39

Hunt, chs 10, 11, 14, 17

Kuhn, T., *The Structure of Scientific Revolutions*, University of Chicago Press, chs 9-13

Meek, Ronald, 'The Marginal Revolution and its Aftermath' in E.K. Hunt and J.G. Schwartz, *A Critique of Economic Theory*, Penguin, 1972, ch. 2

Pressman, pp. 40-44, 53-68

Rima, chs 11-13

Screpanti & Zamagni chs 5.1-5.4; 6.1 and 6.2

Week 11. Institutionalism

Originals:

Galbraith, J.K., *The New Industrial State*, Harmondsworth, Penguin, 1972

Galbraith, J.K., *Economics and the Public Purpose*, Harmondsworth, Penguin, 1973

Veblen, Thorstein, 'Professor Clark's Economics', reprinted in E.K. Hunt and J.G. Schwartz, *A Critique of Economic Theory*, Penguin, 1972, ch. 5)

Other relevant sources:

Hunt, ch 12

Reisman, D., 'The Dissenting Economist: J.K. Galbraith' in Shackleton, J., Locksley G. (eds), *Twelve Contemporary Economists*, London, Macmillan, 1981, pp. 72-86

Pressman, Steven, *Fifty Major Economists*, London & NY, Routledge, pp. 88-91, 153-157

Rima, ch 18

Screpanti & Zamagni pp 280-285

Week 12. The Keynesian Revolution

Originals:

Keynes, J.M., *The General Theory of Employment, Interest and Money*, various editions, London, Macmillan

Kalecki, M., 'Political Aspects of Full Employment', reprinted in Hunt and Schwartz, *A Critique of Economic Theory*, ch. 17

Other relevant sources:

Hicks, J.R., 'Mr Keynes and the Classics, a Suggested Interpretation', *Econometrica*, April 1937

Hunt, ch. 15

Rima, ch. 20

Screpanti & Zamagni chs 7.1-7.3 (see also, 8.2.5 and 9.2.1)

Week 13. Revision week