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The Value of the History of Economic Thought

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Abstract

The study of the history of economic thought (HET) is generally held in low esteem by mainstream economists. However, there are many reasons for teaching students of economics the history of their own discipline. This paper surveys the main reasons for studying and teaching HET. Among the reasons discussed are: HET keeps alive research paradigms that are alternatives to the prevailing orthodoxy; the study of HET exposes students to the comprehensive, holistic systems of economic and social thought constructed by Marx, Smith, Keynes and the other great figures in HET; the study of HET enriches our understanding of contemporary economic thought by showing how the concepts, theories, policies and tools of analysis of economics evolved over time.

Introduction

There is quite a variety of views on the relevance of the study of the history of economic thought (HET) to an education in economics. They run the gamut from the view that ‘dead men tell no tales’ - that there is nothing of value in the history of economic thought (or at least nothing of value that isn’t already distilled into modern works) - to the other end of the spectrum: the scriptural view that all the great works of economics were created in previous decades or centuries and that the task of present-day economists is merely to interpret, teach and apply them. There are, of course, many views along the spectrum between these two extremes.

Dead Men Tell No Tales

Unfortunately, the view that ‘dead men tell no tales’ is the dominant view these days. It is well represented in almost all economics departments in universities, where the prevailing attitude is that anything of value in classical
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works has been incorporated into modern textbooks. As Stigler pointed out (1982, p. 107) some time ago, a young theorist in economics will ‘assume .. that all that is useful and valid in earlier work is present - in purer and more elegant form – in the modern theory’.

The study of the history of economic thought is generally held in low esteem by mainstream economists (as lamented by Blaug 2001, p.145) and is sometimes even regarded as a refuge for non-quantitative economists with weak technical and analytical skills.

This devaluation of HET is not, of course, confined to the modern era. There have always been those who have disparaged the history of their own discipline (whether it be economics, physics or any other scientific or social scientific discipline). In the early nineteenth century, Jean Baptiste Say stated: ‘What useful purpose can be served by the study of absurd opinions and doctrines that have long ago been exploded and deserved to be? It is mere useless pedantry to attempt to revive them. The more perfect a science becomes the shorter becomes its history.’ (my emphasis) (quoted in Barber 1997, p. 93).

Despite comments like those of Say, most classical economists had a healthy respect for the work of their predecessors. Smith, Ricardo, J.S.Mill, Marx and others of the classical era all read the works of those who came before them and referred to them in their own books. More recently, a study of the great masters was required when Keynes was studying and teaching at Cambridge University. Keynes himself (1973, p. 383) gave full recognition to the influence of the great economists:

… 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.

In fact, HET was regarded as an essential part of the curriculum in a standard economics education in most countries right up until the mid-twentieth century. However, respect for the history of economics has generally been on the decline for the last few decades. As Cesarano (1983), Tarascio (1971) and others have pointed out, the growth in the sophistication of the analytical and empirical tools used in economics from the mid-twentieth century onwards has
led to the conviction that the discipline of economics is a science and that its earlier practitioners, unequipped with the modern tools of the trade, have very little of value to say to the modern economist.

**Ancestor Worship**

The diametrically opposed view of the value of HET - ancestor worship - is by far the less common view these days, but is also represented in some academic departments. There are still countless Marxist scholars who pore over the sacred texts and documents with uncritical reverence. Smith, Keynes and others are treated with equal adulation by other historians of economic thought. Some historians of economic thought have substituted hagiography for the critical assessment of the present-day relevance of great works. Many also subscribe to the outmoded *mens auctoris* view of interpretation/exegesis, where it is held that the only meaning or value of a literary work or of any other creative work is that which is intended by its author.

At a time when academia is under pressure to provide more vocationally-oriented courses and when there is pressure in many universities from administrators and fellow academics to restrict offerings in the area of history of economic thought (on both academic and resource grounds) it is instructive to reflect on the reasons for studying and teaching the subject.

In this paper I identify several reasons why students and practitioners of economics should be exposed to the history of their discipline. These reasons are neither mutually exclusive, nor exhaustive.

**The Study of HET is of Intrinsic Value**

There are many who argue that HET is worthy of study for its own sake, that the subject satisfies intellectual interest and is a legitimate and valuable branch of knowledge. It is instructive and satisfying to know how modern economic concepts, theories, policies, methods and tools of analysis evolved over time and how they came to be the way they are today, even if there are no other benefits that come from the study of HET.

It is also interesting to situate economic theorising in the economic, social and political environment prevailing at the time – the environment in which the theories, ideas and concepts were formulated and to which they were often a response or reaction. Ricardo’s distribution theory was framed in reaction to
the corn laws introduced in post-Napoleonic England. Keynes’ *General Theory* was a response to the great depression of the 1930s. The study of HET promotes an understanding of the dynamic, evolutionary interaction of economic theory with the prevailing real world economy and with the other non-economic dimensions of society.

This argument for the value of HET regards the subject as one of intrinsic value, something that is ‘good in itself’ (as G.E. Moore would have expressed it). The study of the subject is justified, according to this argument, even if there are no spillover effects in terms of HET promoting an understanding of the current state of the economy or of contemporary economic thought.

I won’t dwell on this reason for studying HET. There are no considerations here that will prove persuasive to those who need to be convinced of the desirability of teaching or studying HET. One either finds the subject intrinsically valuable and interesting or one doesn’t. It is merely a matter of preference.

**Enrichment of Our Understanding of Contemporary Economic Thought**

A major reason for studying HET is that it enriches our understanding of contemporary economic thought. An appreciation of how modern economic theory and policy evolved - partly in response to the policy interests and theoretical problems of our predecessors and partly as a result of the internal evolutionary dynamics of economic theory itself - is essential to a full and rich understanding of the subject.

Take the topic of discretionary stabilisation policy as an example. A full understanding of this policy requires a familiarity with the theoretical and practical issues that our predecessors had grappled with - Say’s Law, the debate between Malthus and Ricardo over the possibility of general over-production, Keynes’ *General Theory*, Abba Lerner and functional finance, Friedman’s critique of fine tuning, Lucas and the policy ineffectiveness debate, and so on. A familiarity with these historical issues leads to a much richer understanding of the current theory and policy and a better appreciation of its dimensions and limitations.

Another example is the development of value theory (or price theory, as it is more often referred to these days) from Smith, through Ricardo, Marx, the
marginal utility revolution, Marshall, Walras and Pareto, Hicks and Samuelson and the ordinal revolution. Modern neoclassical value theory can’t really be understood properly unless it is seen as a product of classical real cost value theory, marginal utility theory, the Marshallian synthesis and the Hicksian/Samuelsonian purge of real value elements lying behind the demand and supply curves.

Students who learn HET come to appreciate that ideas are not created in a vacuum. Economists don’t theorize in isolation, but either stand on some other giant’s shoulders (what Boulding calls OTSOGery), or else react critically to the prevailing orthodoxy.

As Mark Blaug (1985, p. vii) points out, ‘contemporary theory wears the scars of yesterday’s problems now resolved, yesterday’s blunders now corrected, and cannot be fully understood except as a legacy handed down from the past.’ Elsewhere he characterises this legacy as ‘economic knowledge is path-dependent.’ (Blaug 2001, p. 156)

The question of whether the study of HET improves our understanding of economics also raises the issue of the nature of ‘understanding’ and its relationship to ‘explanation’. This leads onto the broader debate between those social scientists who believe that the social sciences should emulate the natural sciences - where explanation takes the form of subsuming an event or phenomenon under a ‘covering law’ (the covering law model of explanation) - and those who believe that the social sciences are radically different from the natural sciences and that explanation requires ‘understanding’ (reduction of the unfamiliar to the familiar), in the mode of the ‘method of Verstehen’ (see, for example, Ryan 1970, p. 143). The latter approach to explanation and understanding seems to allow a greater role to the study of the history of the discipline, in economics and in the other social ‘sciences’.

**Avoidance of the Errors of the Past**

The vast amount of evidence and analysis which economists have accumulated and conducted over the centuries can provide a useful check on claims to knowledge made in the present, as well as helping to give direction to current research.

Numerous unsolved problems and unanswered questions remain in economics. Many of these issues have been dealt with by economists since time
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immemorial. Knowledge of past successes, errors and dead ends is extremely useful in helping to solve these problems and answer these questions.

Those who are ignorant of history are doomed to repeat it. The same applies to the history of economics. The neglect of the history of the discipline leads to wasteful reinvention of the wheel.

HET is full of lessons showing how economists have neglected their predecessors and how the discipline has suffered for it. Anderson and Tollison (1991, p. 64) point out that ‘Cournot’s analysis of duopoly was first published in 1838, rediscovered by Edgeworth in 1881, not translated into English until 1897, and “rediscovered” once again after nearly a century of neglect in 1934’. In value theory, utility analysis and even marginal utility analysis had many predecessors (recent and long past) who were neglected at the time that the ‘marginal revolution’ occurred in the 1870s.

Economists have occasionally paid a price, in terms of wasted intellectual effort, for their neglect of the history of their own discipline.

Expansion of the Range of Hypotheses in Economics

HET should be studied by modern practitioners and researchers in order to expand the range of ideas and testable hypotheses. There is a wealth of accumulated ideas, facts and theories in HET that can be explored, mined and tested.

It is far too narrow a view of the process by which knowledge accumulates (particularly in the human/social sciences) to think that everything of value that previous generations wrote has been distilled and encapsulated in modern texts.

This narrow view of the growth of knowledge in economics regards knowledge as a pyramid-like construction of facts and theories, a continual process of accretion where new bits of knowledge are added to the accumulated legacy of the past, raising the edifice of scientific knowledge ever upward, brick by brick. On this view of economics marching ever onward and upward through time, the current generation are always discarding the chaff and husks and retaining the seed/kernel of economic truths as building blocks.
This view is exemplified by the quote from J.B. Say in the introductory section of this paper. This view is applicable, if at all, to the natural/physical sciences, rather than to the social sciences.

As Boulding points out (1991, pp. 94-5), such an attitude to HET is a ‘curious reversal of the scriptural approach. The reversal holds that the latest book on the subject is, in fact, the scripture and all that went before it is really in the form of preliminary commentary, a Talmud, as it were, pointed towards future revelation.’

Schumpeter (1954, p. 4) is also very critical of this view:

… teachers or students who attempt to act upon the theory that the most recent treatise is all they need will soon discover that they are making things unnecessarily difficult for themselves. Unless that recent treatise itself presents a minimum of historical aspects, no amount of correctness, originality, rigor, or elegance will prevent a sense of lacking direction and meaning from spreading among the students or at least the majority of students. This is because, whatever the field, the problems and methods that are in use at any given time embody the achievements and carry the scars of work that has been done in the past under entirely different conditions. The significance and validity of both problems and methods cannot be fully grasped without a knowledge of the previous problems and methods to which they are the (tentative) response. Scientific analysis is not simply a logically consistent process that starts with some primitive notions and then adds to the stock in a straight-line fashion. It is not simply progressive discovery of an objective reality - as is, for example, discovery in the basin of the Congo. Rather it is an incessant struggle with creations of our own and our predecessors’ minds and it ‘progresses’, if at all, in a criss-cross fashion, not as logic, but as the impact of new ideas or observations or needs, and also as the bents and temperaments of new men, dictate. Therefore, any treatise that attempts to render ‘the present state of science’ really renders methods, problems and results that are historically conditioned and are meaningful only with reference to the historical background from which they spring. To put the same thing somewhat differently: the state of any science at any given time implies its past history and cannot be satisfactorily conveyed without making this implicit history explicit.

Once we reject this pyramidal view of the progress of knowledge in economics, we realise that the past is a fertile ground for testable hypotheses. The history of economic thought is replete with discarded and forgotten ideas and theories, many of which were buried prematurely. It is therefore profitable to mine these discarded theories and ideas, much like old gold tailing dumps get reworked when later generations have the technology to extract gold that was previously uneconomic to extract.
Fulfilment of the Evolutionary Potential of the Great Works in Economics

Boulding (1991) is strongly in favour of studying the great works in economics - Smith’s *Wealth of Nations*, Ricardo’s *Principles of Political Economy and Taxation*, Marx’s *Capital*. The main reason he gives for this is the unfulfilled evolutionary potential in most of these works. Boulding (1991, p. 99) states:

Works like *The Wealth of Nations*, therefore, are inevitably part of the extended present, which shows no signs of coming to an end, in the sense that one can still go back to Adam Smith even after many rereadings and find insights which one has never noticed before and which may have a marked impact on one’s own thought. .. The principle seems to me pretty clear that as long as intellectual evolutionary potential remains yet undeveloped in the early writers, the modern writers are a complement rather than a substitute; that is, we need both Samuelson and Adam Smith.

This notion of the ‘evolutionary potential’ of a work can be related back to the *mens auctoris* approach to interpretation mentioned in the introduction to this paper. Developments in hermeneutics have led to this approach being outmoded. Once one realises that the meaning or value of a work transcends the meaning in the ‘mind of the author’ and takes on a greater significance, then one allows for the work to have an extended and unlimited evolutionary potential, subject to the interpretations of subsequent generations of readers, based on their particular historical and social perspectives. This applies not only to a great work such as the *Wealth of Nations*, but also to a single concept or idea.

Blaug (2001, pp. 156-7) gives the example of how the Coase theorem evolved from its original statement in Coase’s 1937 paper right through to its modern interpretation. In the process it acquired clarifications, meanings, connotations, interpretations and implications that were not part of Coase’s original intention. Indeed, ‘it took Coase himself several years of Coasean economics by others to define transaction costs more precisely as the costs of negotiating contracts, whether explicit or implicit, and of monitoring and policing the enforcement of contracts, ..’ (Blaug 2001, p. 157). So, even the author himself can be involved in this evolutionary interpretation of his work.
It is clear that the scientific research programmes (SRPs), to use a Lakatosian term, implicit in the writings of Smith, Marx, Keynes and others are not fully exploited, if they ever will be. New interpretations of their work and new applications of their theories and ideas are continuously occurring and this can only be encouraged.

**Awareness of the Potential for Building Comprehensive, Holistic Systems of Economic Thought**

Another powerful argument supporting the study of HET is that students should be exposed to the great systematic, holistic thinkers of the past to show the potential for system building in economics. In recent decades, systematic, comprehensive, holistic economic and social theorising has been neglected, due to the more piecemeal approach to economics encouraged by neoclassical economics, together with the informational requirements of keeping abreast of the burgeoning literature in an era of increasing professional specialisation.

It is virtually impossible to be a polymath these days. We all spend most of our time looking at a few small pieces of the gigantic jigsaw puzzle, with fewer and fewer people having the time or ability to look at the picture as a whole. We are all becoming specialists, who know more and more about less and less.

It is educational and mind-expanding for students to be made aware of the possibility of systematically interrelating the different fields of economics. To read Smith, J.S.Mill, Marx and Keynes and to see how they move between and integrate not only the different sub-fields of economics, but also the different disciplines of economics, politics, sociology and history, is to gain an appreciation of how fulfilling and enlightening it could be to construct a comprehensive, holistic system of economic thought that links all parts of the economic and social structure.

By studying these great works of the classics, students are made aware of the full potential of system-wide economic theorising and are inspired by the possibility of creating such a holistic system. The discipline of economics is shown in its most powerful and appealing light and this leads to renewed interest in the study of economics.
Preservation of Alternative Paradigms

We need to preserve paradigms that are alternatives to the prevailing orthodoxy, even when they are presently uncompetitive or ‘degenerating’ (to use a Lakatosian term). We could allow degenerating paradigms to wither away. Such is the fate of most past theoretical structures in the natural sciences. One progressive theory, able to explain more and better than its predecessor, normally supplants another.

However, in many respects the social sciences are not like the natural sciences. The growth of knowledge is not pyramidal. The latest theory does not incorporate and encompass its predecessors in an unambiguous triumph for the growth of verifiable knowledge. On the contrary, there are usually incommensurabilities and irresolvable clashes of worldviews between the competing theories. This is part of the essential difference, almost an ontological fact, between the natural and social worlds and our understanding and representation of them.

Rather than allowing a ‘Darwinian’ triumph of a progressive scientific research programme (SRP) over a degenerating one, we should encourage the proliferation of worldviews and methodologies, in the manner of Feyerabend’s (1975) anarchistic epistemology. Such ruthless competition (eg, between neoclassical economics and other heterodox economic worldviews) might well lead to the premature demise of a paradigm that could otherwise prove instructive in the long run.

This preservation of alternative paradigms is another very important role performed by the study of HET.

Transcending Fads and Fashions

A reading of HET leads to the realisation that there are many instances of economic doctrines coming into and going out of fashion over long periods of time. Broad-brush economic policies and ideologies (eg, mercantilism, laissez-faire doctrines, protectionism, globalisation, government regulation, deregulation) have come and gone with almost monotonous regularity.

A study of HET enables students to transcend the limitations that are sometimes imposed by the fashions of the day or the decade, to recognize old
economic doctrines dressed up in new garb and to respond to them with appropriate supporting or condemnatory arguments.

Fashions come and go. Without HET, works of great merit that have become temporarily unfashionable run the risk of being confined to the dust-heap of history.

Conclusion

The history of economic thought has an important role in the education of an economist. There are many important reasons why the study of HET should be part of the standard economics curriculum. HET should be studied both for its own sake and for its insights into the state of contemporary economic thought.

One can’t assume that the current texts contain all the distilled truths of their historical predecessors and that the study of the history of economic thought is therefore unnecessary. The growth of knowledge in economics does not occur in pyramidal fashion. Smith, Marx, Keynes and others need to be studied in a full-blooded fashion, by referring to the original primary texts, rather than to secondary sources.

Finally, there is no point in trying to forget the past. As Blaug states (1991, p. x):

The best defence of the history of economic thought is no defence at all. The history of economic thought is irrepressible. It would survive even if it were banned: like the writing of books banned in the society described by Ray Bradbury in *Fahrenheit 451*, it would be carried on in secret in underground organisations. Many economists denigrate the history of economics as mere antiquarianism but, in fact, they have deluded ideas about the history of their own subject. After all, whenever anyone has a new idea in economics, whenever anyone hankers to start a new movement or school of thought, what is the first thing he or she does? Why, it is to rummage the attic of past ideas to establish an appropriate pedigree for the new departure. All the great economists of yesterday did exactly that: Smith, Ricardo, Marx, Marshall and Keynes all drew on the history of economics to show that they had predecessors and forerunners; even Milton Friedman, when he launched the monetarist counterrevolution against Keynes, could not resist the temptation to quote David Hume over and again. The history of economic thought cannot be abolished and, were its study declared illegal, it would be studied in basements behind locked doors.
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