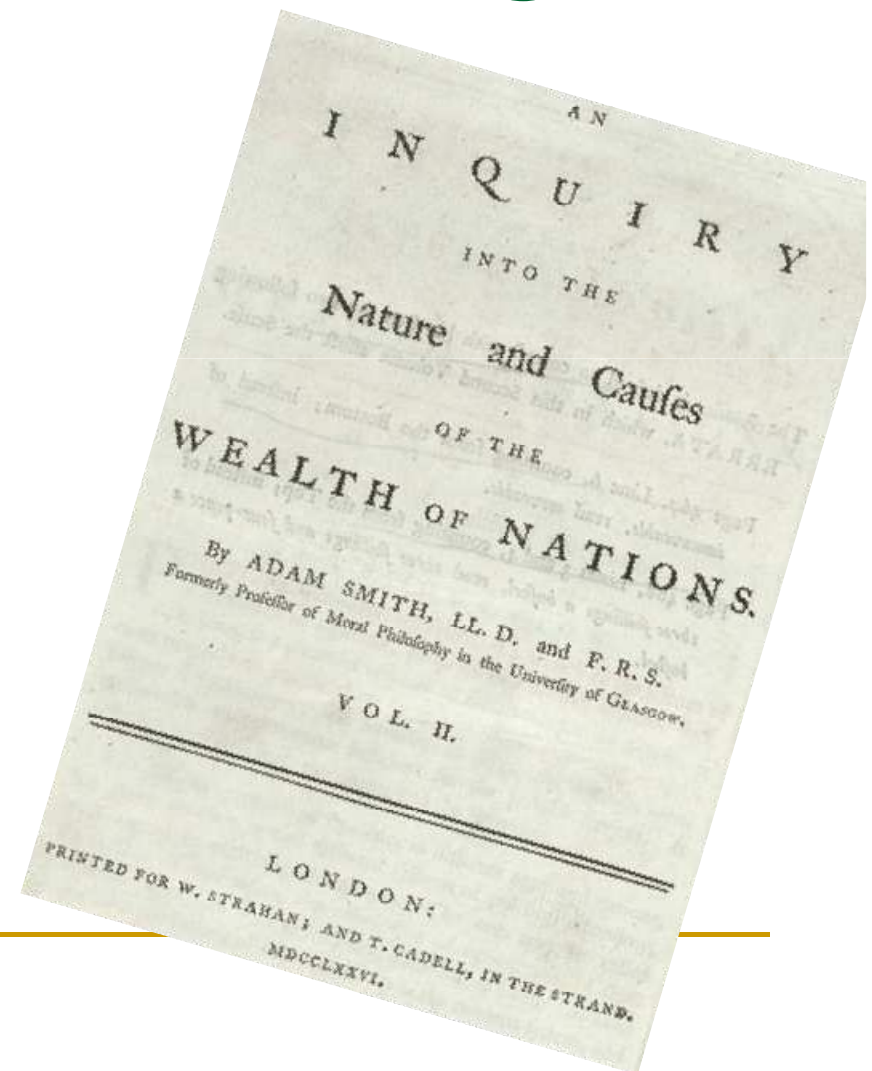


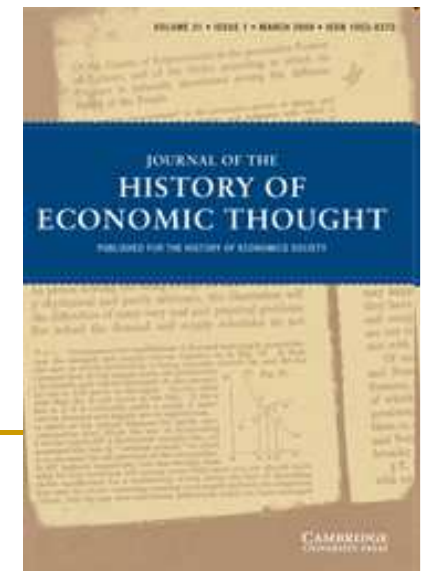
History of economic thought

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Readings

- **A History of Economic Thought**, by Lionel Robbins
- **The Wealth of Ideas: A History of Economic Thought**, by Alessandro Roncaglia
- **A Companion to the History of Economic Thought** (Blackwell Companions to Contemporary Economics), by Warren J. Samuels, Jeff E. Biddle, John B. Davis
- **The Journal of the History of Economic Thought**
- **The History Of Economic Thought websites**, i.e.
<http://homepage.newschool.edu/~het/contents.htm>
<http://www.efm.bris.ac.uk/het/index.htm>



Economy

Activities related to the production and distribution of goods and services

The disposition or regulation of the parts or functions of any organic whole

ALLOCATION MECHANISM

There are 5 basic questions to be answered with respect to the use of resources:

- (1) What goods and services should be produced?
- (2) How many of each should be produced?
- (3) What techniques should be used in the production of the goods and services?
- (4) When the production or use of the goods and services take place?
- (5) Who should get the benefits of the use of each good or service?

The answers to these 5 questions are determined by a variety of factors:

- the endowment of resources and the physical nature of the relationships among them,
- the level and nature of our understanding of those relationships, or technology,
- individual objectives,
- the objectives of society, (which reflect the organization of society and the institutions that coordinate the preferences and behavior patterns of individuals within society)
- information about alternative choices and the probable outcomes of alternative choices,
- perceptions of relationships among the individuals within the society
- values held by individuals,
- the methods used to describe, analyze and identify potential alternatives and outcomes also shape the answers.

Goal in Economic Thought

- How does a society develop a “system” of rules to guide the allocative decisions?
- What do we “know” about how those allocative decisions are made?

History of Economic Thought

History of Economic Thought is a scientific discipline in the group of social sciences, which researches the past of the economic thought, describes it and searches for regularities which are useful for economic practice today

Absolutist approach

The absolutist tends to believe that there are some objective, absolute “facts or truths” about the perceptions and patterns of economic behavior that cross cultural, temporal and social boundaries.

These beliefs and patterns of behavior are perceived as universal. They are believed to apply in every society at all times in similar ways.

From this point of view the study of the history of economic thought becomes a process of reading the works of economists that have contributed in the past and sifting out the grains of truth. Each generation of economists is seen as correcting errors made by their antecedents and adding new insights.

Relativist approach

The relativist approach to the history of economic thought holds that what is “true,” or useful, in one time or place may or may not be useful in some other time or place.

Economic theory is a product of its environment.

What was “true” for Adam Smith in a “nation of shopkeepers” in the mid 18th century may or may not be useful or true in the early 21st century or for Alfred Marshall in the late 19th century. The relativist tends to believe that economic theory is shaped by technology, social and economic institutions.

Fundamental components of human perception and action

Three fundamental components of human perception and action to be included in a study of history of economic thought are:

- **Ideology** (consists of values, attitudes, beliefs, and perspectives that are held in common by a social group),
- **Theory** (an intellectual construct that consists of a set of consistent, coherent propositions that explains a particular class of phenomena),
- **Policy choices** (the coordination and integration of individuals' behavior in a manner consistent with the operation of a society).
- The **outcomes of the policies** is a fourth item which should be included since it interacts with the first three.

Relationship between components of human perception and action

The relationships among ideology, theory, policy and outcomes are multidirectional and multifaceted.

Each influences and is influenced by the others. In an ideal world, the relationships might be viewed as a flow diagram. Ideology is the foundation that provides the axioms and nature of the theories that are used to explain the ways that the world works.

A PROBLEM OF KNOWING

WHAT DO I KNOW?

HOW DO I KNOW?

How do we know that we know is right?

Explanation, Prediction and Storytelling (Indoctrination)

Explanation and prediction are two of the objectives of science.

These two goals are not symmetrical; it is possible to explain an event or phenomenon without being able to predict the probability of its occurrence; at the same time, it is possible to predict an event without being able to explain its nature or causes.

Forms of logic and knowing

- **Inductive reasoning** (empiricism, facts are determined by repeated observations)
- **Deductive logic** (syllogism, facts are determined by combining existing statements)
- Story telling

APPROACHES TO KNOWING

- Greeks and Judeo/Christian , i.e.Aristotle and syllogistic reasoning
- Renaissance
- Enlightenment
- Bacon and empiricism
- Logical positivism
- Popper and “falsification”
- Kuhn and “consensus”
- Lakatos and “SRP”
- Friedman and prediction
- McCloskey and “rhetoric”

APPROACHES TO KNOWING

- Cartesian–Euclidean rhetoric, Greek (axiomatic)
- Babilonian (holistic, systemic)
- Deductive-Nomological (Hipotetic – Deductiv)

Cartesian–Euclidean rhetoric

- Cogito ergo sum (French: Je pense donc je suis; English: I think, therefore I am), often stated as Dubito ergo cogito ergo sum (English: "I doubt, therefore I think, therefore I am") /a philosophical statement used by René Descartes/
- If someone wonders whether or not he exists, that is, in and of itself, proof that he does exist (because, at the very least, there is an "I" who does the thinking).
- It forms the bedrock for all knowledge, because, while all things can be questioned as to whether they are from the realm of reality or from some figment of imagination (a dream, influence of a demon, etc.), the very act of doubting one's own existence serves as proof of the reality of one's own existence.

Babylonian rhetoric

To contrast the Babylonian "rhetoric" one can use the claim that the square on the long side of every right angle triangle has the same area as the sum of squares on the other two sides:

While Greek geometry found a 'universal proof', the Babylonian engineers simply measured the sides of a thousand right triangular stones, and applied the heuristic that since all of these obeyed the relationship so would the rest.

The Deductive-Nomological Model of Science

Deductive-Nomological Model of Explanation: explanations are sound deductive arguments.

D-N Model of Confirmation: the explanation of some fact is also a prediction of that fact.

Fundamental reasons that economic behavior may be studied

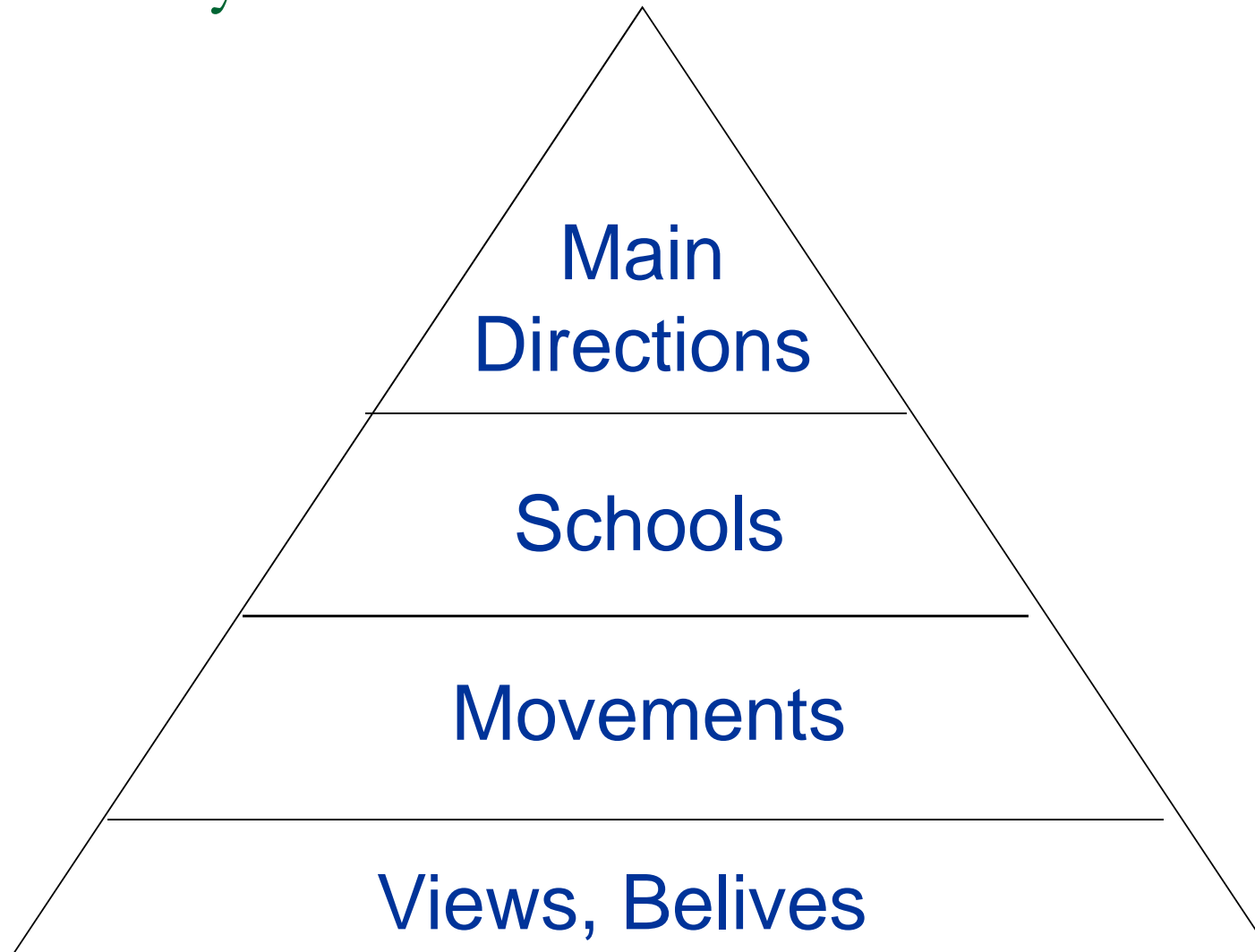
1. First, as an academic discipline there is a desire to understand, describe and explain the world in which we live.
2. Second, as a practical matter there is the desire to predict and control economic processes and their outcomes.
3. Third, the method selected to describe, explain and predict economic processes shapes the perceptions and values that individuals in societies hold about those processes.

Therefore, the values held by the members of society can be influenced by the theories, models or “stories” we believe and use. What we learn, teach and accept is the nature of our culture. Story telling is a mechanism for transmitting values and civilization. Economists are storytellers; their theories and models are stories that contribute to the character of society.

Nature of Work in Economics

- descriptive economics,
- analytical economics,
- applied economics =
macro+micro

Hierarchy in HET



Main periods and schools

- **The Ancients and the Scholastics**

- **Pre-modern economic thought**
 1. **Mercantilists**
 2. **Physiocrats**

Main periods and schools

- **Modern economic thought**
 1. **Classical economics**
 2. **Socialists**
 3. **Neo-classical economics**
 4. **The Historical School**
 5. **Institutionalism**

Perceptions of economic processes

It is the ideological underpinnings that shape perceptions of economic processes. It is differences in ideology that produce different schools of thought in economics. **The history of economic thought attempts to identify these schools and to determine the forces that contribute to their creation, evolution and ultimate “success” or “failure” an intellectual construct that explains, predicts or justifies the world we have created.**

REASONS FOR STUDYING THE HISTORY OF ECONOMIC THOUGHT

The economic process that evolves in any society is a complex matrix of individuals, organizations, rules, and relationships. This matrix is the product of perceptions, values, beliefs, knowledge and technology. The economic process is embedded in society and is related to all aspects of the culture. **An understanding of the economic system and economic theory requires an awareness of the social, historical and philosophical context in which they are developed.**

REASONS FOR STUDYING THE HISTORY OF ECONOMIC THOUGHT

The history of economic thought is a study of alternative perspectives and explanations of how the economic processes function. **An important aspect of the study of economic thought is to identify the factors that encourage different perspectives of the economy. It is also important to trace the evolution of the tools used for analysis and understand how the different perspectives and conditions encourage the use of different tools.**

REASONS FOR STUDYING THE HISTORY OF ECONOMIC THOUGHT

An understanding of the different approaches to economics, the causes for those differences and how they have evolved over time provides a historical and philosophical context that encourages a more critical analysis of current economic tools and their applications. This critical approach has three advantages.

1. First, it provides a more complete understanding of the current state of economic analysis.
2. Second, it may suggest alternative perspectives that will extend, improve or alter the tools and analysis.
3. Third, through an increased awareness of our own perspective of the economic process, it encourages a degree of humility and respect for others.

Timeline

Events		People		Books		Economists	
476 AD	Fall of Rome	354-430	St. Augustine				
570-632	Prophet Muhammad	480-525	Boethius				
711	Moors invade Spain						
850	Gunpowder (China)						
800-900	padded horse collar, nailed shoe						
900-1300	trip hammer						
1066	Battle of Hastings						
1085	El Cid Captures Toledo (1105-1130)						
1095-1101	First Crusade						
1126-1290	Cannon (China)						
1200	Fibonacci (Hindu/Arabic numbers)	1170-1250	Fibonacci				
1215	Magna Carta	1214-1293	Roger Bacon				
1235, 1285	First enclosures	1225-1274	Aquinas	1266-73	<i>Summa Theologica</i> (Aquinas)		
1270	Eighth Crusade, use of "needle" in navigation	1285-1347	Ockham				
1326	Cannon used by Arabs in Spain	1325-1382	Nicole Oresme	1360	<i>Tractus</i> (Oresme, econ theory)		
1342-1361	"Black Death"						
1348	plague reached Britain						
1348	h2o power for bellows (iron)	1394-1460	Prince Henry (Navigator)				
1395	double entry bookkeeping (tal)	1452-1518	Da Vinci				
1439	Moveable type	1469-1527	Machiavelli	1515	<i>The Prince</i> (1505)		
				1516	<i>Utopia</i> (Thomas More)		
1453	fall of Constantinople	1473-1543	Copernicus	1526	<i>Monetae Cudendae</i>		
1456	Gutenberg Bible	1483-1546	Luther	1517	<i>95 Theses</i>		
1492	Columbus Voyage						
1492	Jews Expelled from Spain	1509-1564	Calvin	1588	<i>Lezione delle monete</i>	1529-1606	Bernardo Davanzanti
1492	Granada falls (Moors driven out)	1519-1579	Gresham			1530-1596	Jean Bodin
1498	da Gama (sail to India around Cape Good Hope)						
1519-1522	Magellan's Expedition	1564-1642	Galileo				
1549	Kett's Rebellion (enclosure prot)	1561-1626	Francis Bacon	1620	<i>Novum Organum</i> (Bacon)		

1905	Lochner v. New York	Constitution to invalidate gov't reg of corporation		1906	<i>Manual of Political Economics (Pareto)</i>	1848-1923	Vilfredo Pareto
1908	Model T Ford Introduced			1871	<i>Principles of Economics</i>	1840-1921	Carl Menger
1911	Standard Oil Case			1899	<i>Distribution of Wealth</i>	1847-1938	J.B. Clark
1914-1918	WWI			1899	<i>Capital and Interest</i>	1851-1914	Eugen von Bohm-Bawek
1914	Clayton Antitrust Act			1914	<i>Social Economics (Wieser)</i>	1851-1926	Friedrich Wieser
				1889	<i>Intro to Political Econ</i>	1854-1963	R.T. Ely
				1899	<i>Theory of the Leisure Class</i>	1857-1929	Thorstein Veblen
1929	Stock Market Crash			1933	<i>Epistemological Problems of Econ (Mises)</i>	1881-1973	Ludwig von Mises
1936	Robinson-Patman Act			1948	<i>Individualism and Economic Order</i>	1899-1992	Friedrich Hayek
1929-WWII	Great Depression			1936	<i>General Theory of Employment, Interest and Money</i>	1883-1946	John Maynard Keynes
1936	NewPaper Corp has free speech and can sell advertising without being taxed			1925	<i>Social Control of Business</i>	1884-1963	J.M. Clark
				1933	<i>Theory of Monopolistic Competition</i>	1899-1967	E.H. Chamberlin
				1933	<i>Economics of Imperfect Competition</i>	1903-1983	Joan Robinson
1941	US enters WWII			1942	<i>Theory of Price</i>	1911-1991	George Stigler
				1953	<i>Essays in Positive Economics</i>	1912-	Milton Friedman

