Modern economics as a chapter in the history of economic thought

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I

The history of economic thought is not in very high esteem these days. Few universities include it as a prescribed portion of the standard training curriculum for budding economists. The history of thought is usually taught in a single semester in which the student dashes through Physiocracy to Smith and Ricardo, stops for a moment to regard from afar the mysterious figure of Karl Marx, learns about the Marginalist Revolution, and is finally delivered safely to the arms of Modern Economics when he reaches the 1930s and the General Theory is born.

There is a reason for the short shrift accorded to our subject. It is that our discipline generally regards the great books of the past as no more than prolegomena to the present. Physiocracy, Classical Economics, the eclectic works of Mill, are all held in the tender affection with which we cherish the early scribblings of literary geniuses, but save for a handful of antiquarians, these landmarks in the history of thought are not studied for their intrinsic interest and importance. On the contrary, most contemporary texts on the history of "doctrines" judge and grade the works of the past by the degree to which they anticipate the present. Thus the student is told that Physiocracy is interesting because the Tableau Economique has all the elements of a matrix; or that Adam Smith really had a theory of choice; or that Marshall came within a hair of coining the term Marginal Revenue. From this widely shared point of view, the history of economic thought becomes a chronicle of mistakes and near-misses, a kind of voyager's log as the profession gradually makes its way to the Promised Land—in effect, to the economics of the last fifty years.1

1. There is, to be sure, one great exception to this generalization. The work of Marx is regarded by Marxists as full of contemporary import. But Marxists are a minority in our profession.
It is not surprising that we accord such importance to these last fifty years, for they have witnessed the birth, or at least the matura-
tion, of nearly everything we think of as "economics." Of course there is the central achievement of Keynes to which I will return later. But much more than this can be credited to the extraordinary half-century behind us. Econometrics is a child of this era. So is the full-fledged application of mathematics to economic theory. So is sectoral analysis, linear programming, input-output theory and practice. Everyone knows that we owe the description of oligopoly to these years, as well as the formulation of imperfect competition in general; but many forget that the very depiction of the familiar dish-shaped cost curve, and the identification of marginal costs and revenues as the operational guides for profit-maximizing, all originate in the late 1920s—the opening pages of this chapter. Liquidity preference comes with Keynes; more surprising, we owe to these years the formaliza-
tion of the theory of fractional reserve banking. Little wonder, then, that modern economics seems to be the culmination of all that has gone before it, and that economics stripped of the contributions of the last fifty years looks primitive, clumsy, almost unusable.

Is this widespread estimation of modern economics justified? Is the last chapter in the history of thought superior to its predecessors in the way in which the later chapters or paradigms in the history of physics or chemistry embrace and go "beyond" their nineteenth- or eighteenth-century forerunners? I do not think so. At least I shall argue in this article that economics is not a scientific discipline like the natural sciences, and that no cumulative advance describes its changeful form over the years. Let me hasten to add that this is not the case with certain technical or analytical achievements associated with economics. But these aspects of our discipline, I shall maintain, do not constitute the core of economics proper. And when we examine this core, which I shall do immediately, we find nothing like the cumulative progression that marks the steady accretion of knowledge in the natural sciences. In fact I shall even venture the assertion that the chapter we call modern economics, compared with earlier chapters of our discipline, is shallow and poor rather than deep and rich, and that the intellectual puzzle of some future time will be to account for the failure rather than the success of the period in which we have lived.

II

After so bold an opening statement I must try to make a case. Here everything hinges on what one holds to be the central objective
of economics. I believe it is the identification and explication of hidden problems in society's process of material self-reproduction. The phrase "process of material self-reproduction" establishes the special concern of economics with the tasks of production and distribution by which society provisions its members, thereby directing the attention of economists toward a different set of processes and institutions from those that sustain and guide societal life in the areas we call political or social.

More important for our purposes is the stress on "hidden problems." By these words I mean that economics studies the reproduction process only insofar as it gives rise to outcomes that are not immediately apparent or inherent in the physical or social processes of production. The making of steel, for example, interests the economist not because it results in the creation of steel plates or girders, but because it generates employment, incomes, or constraints on other branches of manufacture or on consumption. The institutions of government do not interest economists insofar as they reflect political or social traditions or embody various concepts of executive or legislative or judicial power, but only to the extent that they form and shape public or private economic behavior. Thus the hidden problems that economics identifies and seeks to explain are those that give rise to unexpected or unintended or simply obscure outcomes for the underlying process of material provisioning.

These hidden problems change as the physical and social structure of the provisioning process changes, and the focus of economic inquiry accordingly changes as well. The history of economic thought cannot be read as a single long investigation of one clearly defined "problematic," but as a series of investigations into those aspects of the reproduction process that at different periods offer the greatest intellectual or social challenge to the investigators of the time. Medieval economics, for instance, was largely preoccupied with the question of whether the pursuit of market objectives, in the course of social provisioning, would bring men into spiritual danger. Mercantilist economics inquired into the relationship, by no means self-evident to the contemporary observer, between the pursuit of private gain through foreign trade and the national security. Physiocratic economics turned its attention to a still more obscure and recondite problem—the effect of tax policy on the productive capacity of society. Classical economics investigated the problem of the Invisible Hand—the social consequences of the free play of competitive acquisitive behavior. Marxian economics sought to remove the veil of ignorance both with respect to the movements of the capitalist system
and the true nature of capitalist social relationships. Marginalism uncovered the hidden existence of equilibrating and optimizing tendencies within the marketplace.

I do not wish to suggest that the problems that absorbed the interest of economists obediently followed changes in the reproductive substructure, for this is by no means always the case. The successive "chapters" of economic thought are only loosely related to the underlying "chapters" of economic history; one can argue at length, for example, why marginalism followed classical economics. I do, however, wish to make two generalizations with respect to all these chapters. First, none of them develops in a manner that bears any but the most superficial resemblance to the methodology of science. Controlled experiment—the very crux of the scientific method—plays no role whatsoever in economic inquiry. Neither does anything resembling the systematic search that marks the more taxonomic branches of science, such as botany or zoology. The effort to erect falsifiable hypotheses is largely ignored or honored in the breach, save for very small-scale problems. Instead, the investigative and explicative task of economics has moved by methods that rely on introspection, by heroic abstractions that have a high esthetic attractiveness, or by the illumination of gestalt-like "visions," to use Schumpeter's word.

Second, the succession of hidden problems that describes the history of economic thought has very little internal connectedness. Unlike the successive paradigms of astronomy or physics or chemistry, the gestalts or models or abstract schemata that help explain the hidden problems of one age are not framed to elucidate the problems of a prior age. For example, neither mercantilism nor physiocracy was the least interested in the social concerns of medieval economics, nor was mercantilist economics "applicable" to physiocratic concerns and vice versa. Classical economics, in turn, lost sight of the issue of national power and the maximization of proprietary rents that were the central elements in mercantilist and physiocratic investigations. Marginalism likewise ignored entirely the overriding classical interest in the changing historic fortunes of the three main social classes. Only classical Marxism consciously sought a "scientific" solution to the problems of its predecessors, but its "scientific method" proved unreliable for the analysis of latter-day capitalism, not to mention contemporary socialism.

Thus it seems to me mistaken to think of the successive chapters of economic thought as constituting a gradual extension or accumulation of scientific knowledge. It is for this reason that I resist the temptation to picture modern economics as a "culmination" of a
discipline that I do not believe moves in a cumulative fashion. Why, then, do so many economists strongly feel that the economics of our time represents a genuine advance over earlier economics, comparable to the advances of physics? The answer, as I have already mentioned, is the impressive cumulative growth in our technical analytic capabilities. For certainly a steady refinement can be observed in the methods by which economics analyzes the problems it discovers. The appeal to natural law gives way to a reliance on psychological "laws" and then to sophisticated procedures of correlation. Argument by authority, relied on by Aquinas, becomes argument by deduction from stylized models—Ricardo's "strong cases." Graphical analysis sweeps away verbal ambiguities; mathematics clarifies graphics. Styles of exposition lose color, but vocabularies gain precision.

Thus the level of technical analysis steadily improves, and we naturally apply our enhanced abilities to bygone problems. Physiocracy then does indeed become a primitive input-output model. Mercantilism reveals its secrets instantly to an Edgeworth-Bowley box diagram. Classical economics becomes an exercise in growth theory. Marshall's Appendices are esteemed above his text. Inevitably we gain the impression that the technical abilities that enable us to clarify so easily the confused representations of another era are themselves an advance in the core purpose of economics—the ability to identify and explicate hidden problems in the process of material self-production.

Here is where I believe the root confusion lies. The most formidable advances in mathematics or statistics or philosophic method do not help us in the formulation of those gestalts and visions by which we "grasp" the problems of a society. That creative act simply eludes systematization.

And I am equally certain that an improved ability to specify problems more precisely, more elegantly, more abstractly, or more rigorously does not necessarily lead to a better comprehension of the original "hidden problem" in its full ramifications. It is of course true that certain puzzles have a long history within economic thought—the incidence of taxation, the effects of wage increases on prices, etc. In these areas of analysis, contemporary economics may sometimes solve problems that baffled our predecessors—less often, perhaps, than it believes. But it would be a great error to assume that analytical investigation of this kind is the "true" or unchanging objective of economic inquiry. Mercantilism, let us not forget, was about the legitimacy of the mercantile class, not just about trade and wealth. Physiocracy was a plan for social reform, not just a matrix
of transactions. Classical economics was a holistic depiction of sociology, history, and economics, not just a growth model. The application of modern techniques reveals flaws in the spectacles of our forebears, but in itself it gives no new or better vision, no deeper comprehension of hidden social problems, old or new.

III

Now let me turn to a direct estimate of modern economics as a chapter in the history of thought. I have explained why I do not think it can be called a culmination of past chapters, but I have not yet tried to justify my opinion that despite its dazzling array of accomplishments, modern economics is disappointing in comparison with the economics of earlier periods.

Here I must of necessity resort to value judgments and a perhaps biased representation of the work of half a century. Nonetheless I shall try to suggest—I cannot possibly "demonstrate"—the reasons for my tempered judgment of the period as a whole. It is simply that I cannot find, over the range of a half-century, any great vision comparable in its illuminating power to those of past chapters. Modern economics has discovered many problems, but no overarching problem. It has nothing to compare with the "magnificent dynamics" of the classicists. It has no view of the value problem to challenge the vision of the marginalists. It does not have a clear conception of the relationship of economics to politics, such as that which undergirded the work of the mercantilists and physiocrats. It lacks the moral authority of medieval economics. It does not aspire to the ambitious goals of Marxism.

Lest I sound merely carping and ungenerous, consider for a moment some of the main accomplishments of our period. Surely the hidden problem of underemployment equilibrium was the greatest of its discoveries. But how short-range, how static, Keynes's vision of the economy now looks! How parochial seems his dictum that "when 9,000,000 men are employed out of 10,000,000 willing and able to work, there is no evidence that the labour of these 9,000,000 men in misdirected" (General Theory, p. 379). And how insipid, how inadequate, is the remedial "Keynesian economics" that grew out of the economics of Keynes!

Or take the Harrod growth model that also emerged from Keynes's insights. This too was a brilliant new hidden problem for economics. But where was the concern, so large in classical economics, for the impact of growth on the relative fortunes of the different social classes? Where was a consideration of the feedback from
growth to motivation? Where was the link between growth and market structure? Where the cautions against applying such a theory to the underdeveloped world? Some of these questions were raised during the period of modern economics, but not by the mainstream of the profession.

Similar reservations can be applied to attainments in other areas. There has been an enormous proliferation of work in the theory of the firm, but can we be said to have described patterns of behavior of the large corporation more perceptively than did Alfred Marshall in his description of the "Buddenbrooks capitalism" of his day? There has been an astonishing extension of economic theory into new ground, but has the application of economics to history, urban decay, poverty, discrimination, and the like gone beyond the framework of individualistic optimizing models, the dubious product of an earlier chapter of thought? The same skeptical judgment has been leveled by many against the achievements of mathematical economics. Boulding has written of Samuelson's work, "It is something of a question ... whether the very beautiful and elaborate theory of maximization ... is not a monument to economics rather than its foundation" (Collected Papers, I, p. 243). If I may repeat a verdict I once pronounced: the prestige accorded to mathematics in economics has given it rigor, but, alas, also mortis.

Thus, for all the virtuosity of effort that has gone into the last fifty years, I cannot discover in the chapter of modern economics a depth or breadth that would raise it above the level of attainments of previous chapters. Modern economics has been a marvelously fecund and ingenious period, but I do not think it can be called a great period. The last fifty years have been a Hellenistic, not a Periclean Age for economic thought. Perhaps this is the consequence of living in a period of transition, when the hidden problems of the market system are giving way to those of a nascent planning system. What visions will emerge to help us comprehend this period of transition we do not yet know. Beginnings of a new orientation for economics lie here and there, but they have yet to be gathered into a new "doctrine." Dusk is falling, but the owl of Minerva has yet to spread its wings.

I wish to thank David Gordon, Adolph Lowe, Edward Nell, and David Schwartzman for helpful comments.