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0521843375 - The Wealth of Ideas: A History of Economic Thought

Alessandro Roncaglia

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The Wealth of Ideas

The Wealth of Ideas traces the history of economic thought, from its prehistory (the Bible, Classical antiquity) to the present day. In this eloquently written, scientifically rigorous and well-documented book, chapters on William Petty, Adam Smith, David Ricardo, Karl Marx, William Stanley Jevons, Carl Menger, Léon Walras, Alfred Marshall, John Maynard Keynes, Joseph Schumpeter and Piero Sraffa alternate with chapters on other important figures and on debates of the period. Economic thought is seen as developing between two opposite poles: a subjective one, based on the ideas of scarcity and utility, and an objective one based on the notions of physical costs and surplus. Professor Roncaglia focuses on the different views of the economy and society and on their evolution over time and critically evaluates the foundations of the scarcity–utility approach in comparison with the Classical/Keynesian approach.

ALESSANDRO RONCAGLIA is Professor of Economics in the Department of Economic Sciences, University of Rome ‘La Sapienza’. He is a member of the Accademia Nazionale dei Lincei and editor of *BNL Quarterly Review* and *Moneta e Credito*. His numerous publications include *Piero Sraffa: His Life, Thought and Cultural Heritage* (2000) and the Italian edition of this book, *La ricchezza delle idee* (2001) which received the 2003 Jérôme Adolphe Blanqui Award from the European Society for the History of Economic Thought.

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Preface

The idea underlying this work is that the history of economic thought is essential for understanding the economy, which constitutes a central aspect of human societies. Confronted with complex, ever-changing realities, the different lines of research developed in the past are rich in suggestions for anyone trying to interpret economic phenomena, even for those tackling questions of immediate relevance. In this latter case, indeed, the history of economic thought not only provides hypotheses for interpretation of the available information, but also teaches caution towards a mechanical use of the models deduced from the (*pro tempore*) mainstream economic theory. Similarly, when confronted with the variety of debates on economic issues, a good understanding of the cultural roots both of the line of reasoning chosen and of its rivals is invaluable for avoiding a dialogue of the deaf.

In fact, the comforting vision offered by the great majority of economics textbooks, that of a general consensus on ‘economic truths’, is – at least as far as the foundations are concerned – false. In order to understand the variety of approaches within economic debate, it is necessary to reconstruct the different views that have been proposed, developed and criticised over time about the way economic systems function. This is no easy task. The economic debate does not follow a linear path; rather, it resembles a tangled skein.

In attempting to disentangle it, we will focus on the conceptual foundations of the different theories. One of the aspects that distinguishes this work from other histories of economic thought is its recognition that the meaning of a concept, even though it may retain the same name, changes when we move from one theory to another. Changes in analytic structure are connected to changes in conceptual foundations; all too often this fact is overlooked.

In this context, the Schumpeterian distinction between history of analysis and history of thought – the former concerning analytic structures, the latter ‘visions of the world’ – proves not so much misleading as largely useless. Equally inappropriate is the sharp dichotomy between

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‘rational reconstructions’ and ‘historical reconstructions’ of the history of economic thought. It is hard to see why reconstructing the logical structure of an economist’s ideas should clash with respecting his or her views. Indeed, in the field of the history of thought, as in analogous fields, the criterion of philological exactness is the main element differentiating scientific from non-scientific research.

The limits of the present work hence depend not so much on a priori fidelity to a specific line of interpretation as on the inevitable limitations – of ability, culture and time – of its author. For instance, I have not considered the contributions of Eastern cultural traditions, and very little space – a single chapter – is given to the twenty centuries constituting the prehistory of modern economic science. Of course Western economic theory is deeply rooted in classical thought – both Greek and Roman – and thanks to the mediation of a medieval culture which is richer and more complex than is commonly perceived. Thus, the decision to treat such a long and important period of time in just a few pages is obviously controversial. However, in so wide a field, choices of this kind are unavoidable. Naturally the results presented in the pages that follow are, notwithstanding efforts at systematic exposition, clearly provisional, and comments and criticisms will be helpful for future research.

Our journey begins with a chapter on methodological issues. It is not intended as a survey of, or an introduction to, the epistemological debate. We will only try to show the limits of the ‘cumulative view’, and the importance of studying the conceptual foundations of different theoretical approaches.

The following three chapters are devoted to pre-Smithian economic thought. Chapter 2 concerns the prehistory of economic science, from classical antiquity to mercantilism. Chapter 3 is devoted to William Petty and his political arithmetic: a crucial episode of our science, with respect both to method and to the formation of a system of concepts for representing economic reality. Focusing upon an individual or a particular group of thinkers, here as in other chapters, will illustrate a phase in the evolution of economic thought and a line of research, looking back and looking on, to precursors and followers.

Between the end of the seventeenth century and the middle of the eighteenth (as we shall see in chapter 4) different lines of research intersect. Although interesting contributions from the strictly analytical point were relatively scarce in this period, we shall note its importance for the closer relations between economic and other social sciences characterising it. The problem of how human societies are organised and what motivations determine human actions – passions and interests, in particular self-interest – as well as the desired or involuntary outcomes of such

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actions, are in this period at the centre of lively debate at the intersection between economics, politics and moral science.

Already in this first stage two distinct views are apparent: a dichotomy which, together with its limits, will become clearer as our story unfolds. On the one hand, the economy is seen as centred on the counter-position between supply and demand in the market: we may call this the ‘arc’ view, analogous to the electrical arc, in which the two poles – demand and supply – determine the spark of the exchange, and hence the equilibrium. In this view the notion of equilibrium is central. On the other hand, we have the idea that the economic system develops through successive cycles of production, exchange and consumption: a ‘spiral’ view, since these cycles are not immutable, but constitute stages in a process of growth and development.

Recapitulation and an original reformulation of such debates is provided by Adam Smith’s writings, which we shall consider in chapter 5: the delicate balance between self-interest and the ‘ethics of sympathy’ is the other side of the division of labour and its results.

The debate on typically Smithian themes of economic and social progress is illustrated in chapter 6. The French Revolution and the Terror constitute the background to the confrontation between supporters of the idea of perfectibility of human societies, and those who consider interference in the mechanisms regulating economy and society useless, if not dangerous.

We thus arrive with chapter 7 at David Ricardo, the first author we can credit with a robust analytical structure, systematically developed on the foundation of Smithian concepts. Ricardo stands out among other protagonists of an extremely rich phase of economic debate, although Torrens, Bailey, De Quincey, McCulloch, James and John Stuart Mill, Babbage and the ‘Ricardian socialists’ are autonomous personalities with leading roles to play in their own right; they are discussed in chapter 8. In chapter 9 we consider Karl Marx, in particular those aspects of his thought that are directly relevant from the viewpoint of political economy.

The golden age of the classical school runs, more or less, from Smith to Ricardo. The turning point, traditionally located around 1870 and termed the ‘marginalist revolution’, returns us to the ‘arc’ view of the counter-position between demand and supply in the market. Although long present in the economic debate, the view now assumes a more mature form thanks both to the robust analytic structure of the subjective theory of value and the greater consistency of the conceptual picture. The central problem of economic science is no longer one of explaining the functioning of a market society based on the division of labour, but one of interpreting the choices of a rational agent in their interactions, through the market, with other individuals who follow similar rules of behaviour.

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The main characteristics of this turn and the long path preparatory to it are discussed in chapter 10. In addition, this and the two subsequent chapters illustrate the three main streams into which the marginalist approach is traditionally subdivided: Jevons's English, Menger's Austrian and, finally, Walras's (general equilibrium) French approach. An ecumenical attempt at synthesis between the classical and the marginalist approaches marks Alfred Marshall's work. This attempt, and its limits, are discussed in chapter 13.

Marginalism is strictly connected to a subjective view of value, with a radical transformation of utilitarianism, which originally constituted the foundation for a consequentialist ethic. Jevons's utilitarianism reduces *homo oeconomicus* to a computing machine that maximises a mono-dimensional magnitude: it is on this very thin foundation, as we shall see, that the subjective theory of value builds its analytical castle.

The case of Marshall is quite interesting, since it shows how difficult it is to connect coherently a complex and flexible vision of the world to an analytic structure constrained by the canons of the concept of equilibrium. Something similar happens in the case of the Austrian school, as well as in the thought of Schumpeter, whose theory is illustrated in chapter 15. We can thus understand the contrasting evaluations formulated over time on several leading figures (exalted or despised depending on the point of view from which they are judged), taking account of the richness and depth of their conceptual representation of reality, or the weaknesses and rigidity of their analytic structure.

The problem of the relationship between conceptual foundations and analytic structure takes different forms in John Maynard Keynes and Piero Sraffa, whose contributions are discussed in chapters 14 and 16. Keynes hoped to make his theses acceptable, revolutionary as they were, to scholars trained within the marginalist tradition. However, his conciliatory manner generated glaring distortions of his thought, which became sterilised in the canonical version of the 'neo-classical synthesis'. Sraffa, on the other hand, formulated his analysis in such a way as to render possible its use both in a constructive way, within a classical perspective, and for the purpose of criticism, within the marginalist approach. However, this made it more difficult to reconstruct the method and conceptual foundations of his contribution, again opening the way to a number of misunderstandings.

Finally, mainly on the basis of Keynes's and Sraffa's contributions, and taking into account recent developments illustrated in chapter 17, chapter 18 presents some tentative and provisional reflections on the prospect for economic science.

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The by now somewhat remote origin of this work was a course of lectures on *Economic philosophies* given in 1978 at Rutgers University. I had already done research on Torrens, Sraffa and Petty (Roncaglia 1972, 1975, 1977) and I deluded myself that I would be able to write a book of this kind on the basis of my lecture notes in a relatively brief span of time. In the following years I gave courses of lectures in the history of economic thought on various occasions: at the University of Paris X (Nanterre), at the Faculty of Statistics and the doctorate courses in Economic Sciences of the University of Rome (La Sapienza), and at the Institute Sant' Anna of Pisa. I have also taken part in the realisation of an Italian TV series, *The Pin Factory*: twenty-seven instalments on the major protagonists of the history of economic thought. These experiences played an essential part in the endeavour to make my exposition ever clearer and more systematic. The research work benefited over the years from MIUR's (the Italian Ministry for Universities and Research) research grants. It was also greatly helped by remarks and suggestions received at a number of seminars and conferences, and on the papers that I have over time published on issues in the history of economic thought. Many colleagues and friends have been of great help; I wish to recall here the initial stimulus offered by Piero Sraffa and Paolo Sylos Labini, and the useful suggestions of Giacomo Becattini, Marcella Corsi, Franco Donzelli, Geoff Harcourt, Marco Lippi, Cristina Marcuzzo, Nerio Naldi, Cosimo Perrotta, Gino Roncaglia, Mario Tonveronachi, Luisa Valente and Roberto Villetti, who read drafts of some of the chapters. Silvia Brandolin provided precious help with the editing.

The English edition embodies some new material and a number of minor changes, prompted by comments and suggestions of Giuseppe Privitera and other readers of the (by now) two Italian editions and of four anonymous referees. Thanks are also due to Graham Sells (and to Mark Walters for chapters 12, 13 and 17) for help in improving my bastard English style, and to Annie Lovett, Patricia Maurice and Jo North for their kindness and patience while seeing this book through the press. Obviously the responsibility for remaining errors – unavoidable in a work of this kind – is mine. I will be grateful to readers who point such errors out to me (Alessandro.Roncaglia@uniroma1.it).

Notice

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