The Dead Economists' Society

Enduring Ideas from the Dismal Science

A Course in Four Sessions

Phillip LeBel, Ph.D.
Emeritus Professor of Economics
Montclair State University
lebelp@montclair.edu
https://msuweb.montclair.edu/~lebelp/TheDeadEconomistsSociety.html

Introduction. Few headlines illustrate the chaos and confusion we see today as those in reference to contemporary economic policy. In this updated course, we take up basic elements of economic accounting, economic indicators, and how economists of time gone by are still relevant to our understanding of contemporary events.

The late English economist, John Maynard Keynes (1883-1946), wrote in his 1936 treatise, *The General Theory of Employment, Interest, and Money*: "Practical men who believe themselves quite exempt from any intellectual influence, 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 this statement, and in other passages from his writings, Keynes was railing against what he viewed was the deadening impact of economists on the formulation of coherent public policy positions, and why new thinking was needed. What Keynes was arguing over were the views of what he called "the classical economists", those grouped around the writings of Adam Smith (1723-1790), John Stuart Mill (1806-1873), and Alfred Marshall (1842-1924), in which the virtues of a free and unfettered market economy could produce enduring prosperity. All of this seemed to be contradictory to the Great Depression of the 1930's that defined one of the worst episodes of market capitalism that the world had ever seen, rivaled perhaps only recently by the threat of the Great Recession of 2008-2013 in which we have seen a replay of some of the same arguments.

Who then, are the dead economists who have shaped our understanding of the world in which we live, and what, if anything, does this have to do with logic and rationality? Economists like to think that the constructs they put forth, that is, the theory and models that flow from them, are built around the notion of rationality. If we live in a rational world, then we can adopt choices that tend to maximize the level of income and wealth at the lowest possible cost to society. Moreover, in such a rational world we even can arrive at an answer to the enduring and thorny question of whether a rational market economy also achieves distributive justice, a proposition that has been sorely tested, never more so than in recent years in which the distribution of income has become as unequal as any measures we have taken since the beginning of the twentieth century.

Are markets, and the actors who participate in them, rational? What then, of the role of government in all of this? Do we need government at all to achieve an efficient and just allocation of resources? What are the proper functions of government in achieving economic prosperity and a just distribution of income? These perennial questions are with us still, as are the ideas of those defunct economists to whom we turn for wisdom and guidance, whether informed or benighted and against which we face an uncertain future. To address these questions we outline a mini-course in four sessions, the topics of which are outlined below.

A. Session One – **The Evolution of Economic Ideas and of the Origins of Social Science**.

1. **Economic Questions in Historical Perspective** – the origins of accounting, sunspots and economic phenomena, early institutional mechanisms for handling risk, invention and innovation in economic activity.
2. **The Emergence of Economics as a Social Science** – Auguste Compte (17981857) – *The Logic of Positivism* (*Discours sur l'esprit positif*) (1844); The *Methodenstreit* in German and Austrian Economics – Gustav Schmoller (18381917) – *The Mercantile System and Its Historical Significance* (1884), Karl Menger (1840-1921) – *Investigations into the Method of the Social Sciences* (1883)
3. **The Methodology of Economics and the Bridge to Public Policy**: explanation, prediction, and the formulation of public policy criteria – Myrdal, Gunnar (1898-1987) – *The Political Element in the Development of Economic Theory* (1929); Milton Friedman (1912-2006) – *Essays in Positive Economics* (1953); John Rawls (1921-2002) - *A Theory of Justice* (1971); Robert Nozick (1938-2002) - *Anarchy, State, and Utopia* (1974); Thomas Piketty (1971- Still alive!) - *Inequality in the Twenty-First Century* (2013)

B. Session Two – Economic Ideas Inspired by Historical Realities

1. **Distributive Justice in Medieval Thought** – St. Thomas Aquinas (1225-1274) *Summa Theologica* (1265*)*, and the Just Price
2. **Understanding Inflation** – Jean Bodin (1530-1596) - *Réponses aux Paradoxes de M. Malestroit* (1566)
3. **National Income Accounting** – William Petty (1623-1687) - *Political Arithmetick* (1695); François Quesnay (1694-1774) - *Tableau Économique* (1759)
4. **Economic Growth and Development** – Thomas Mun (1571-1641), *England's Treasure by Forraign Trade* (1628); Bernard Mandeville (1670-1733), *The Fable of the Bees* (1717); Adam Smith (1723-1790) – *The Theory of Moral Sentiments* (1759); *An Inquiry into the Origins of the Wealth of Nations* (1776);

C. Session Three – Economics as a Social Science arrives in the Public Space

1. **International Trade** – Thomas Malthus (1766-1834), *Essay on Population* (1798); *Principles of Political Economy* (1814); David Ricardo (1772-1823), *Principles of Political Economy and Taxation* (1817)
2. **Booms and Busts**: John Kenneth Galbraith (1908-2006), *The Great Depression* (1955); Milton Friedman (1912-2006) and Anna J. Schwartz (1915-2012), *A Monetary History of the United States, 1857-1960* (1963).

3. **Evolutionary and Revolutionary Economics** – Eduard Bernstein (1850-1932) - *Evolutionary Socialism* (1898*)*; Karl Marx (1818-1883) – *Das Kapital* (1967), vol. 1; V.I. Lenin (1870-1924) - *Imperialism, the Highest Stage of Capitalism* (1916);
4. **Industry Dynamics and the Roles of Regulation and Antitrust**: Augustin Cournot (1801-1877) – *Researches into the Mathematical Principles of Wealth* (1838); Arnold Harberger (1924 – still alive!) *Monopoly and Resource Allocation* (1954); Harvey Leibenstein (1922-1994) - "Allocative Efficiency versus 'X-Efficiency'" (1966); William Baumol (1922 – still alive!) – *Contestable Markets and the Theory of Industry Behavior* (1982); Harold Hotelling (1895-1973) – "The Theory of Exhaustible Resources" (1931)
5. **Invention and Innovation as Sources of Economic Growth** – Schumpeter, Joseph A. (1882-1950) – *The Theory of Economic Development* (1934, 1911); *Capitalism, Socialism, and Democracy* (1942); William J. Baumol (1928 – still alive!), *The Entrepreneur in Economic Theory* (1993); Michael Porter (1947 – still alive!), *The Competitive Advantage of Nations (*1990)
6. **How Risk Affects Economic Behavior** – Veblen, Thorstein (1857-1929), *The Theory of the Leisure Class* (1899); Daniel Bernoulli (1700-1782), *Exposition of a New Theory of Risk* (1954, 1754); John Von Neumann (1903-1957) and Oscar Morgenstern (1902-1977) - *Theory of Games and Economic Behavior* (1944);

D. Session Four – Can Dead (even some still living…) Economists provide Useful Insights to the Future?

1. **On the Accuracy of Economic Observations** – Oskar Morgenstern (1902-1977) *The Limits of Economics* (1937); Harry Markowitz (1927 – still alive!) *Portfolio Selection* (1952); Nicolas Nasim Taleb (1960 – still alive!) - *The Black Swan* (2007).
2. **Market versus Government Failure** – Francis M. Bator (1925 – still alive!) - *Anatomy of Market Failure* (1958); Kenneth J. Arrow (1921 – still alive!) – *Social Choice and Individual Values* (1963, 1951); Anthony Downs (1930 – still alive!) – *An Economic Theory of Democracy* (1957); Herbert Simon (1916-2001) – "A Behavioral Model of Rational Choice" (1955).
3. **How Perceptions of Risk Shape Economic Behavior and the Economic Role of Government** - Louis Bachelier (1870-1947) – *The Theory of Speculation* (1900); Fisher Black (1938-1995), Myron Scholes (1941 - still alive!), and Robert C. Merton (1944 – still alive!), the Black-Scholes-Merton Option Price Model; Robert J. Shiller (1946 – still alive!) - *Irrational Exuberance* (2000); Daniel Kahneman (1934 – still alive!) - *Thinking Fast and Slow* (2011).
4. **On the Optimal Size of Government Deficits and Debt** – Willem H. Buiter (1949still alive!), *The Theory of Optimum Deficits and Debt* (1983); Frank P. Ramsay (1903-1930) - "A Contribution to the Theory of Taxation" (1927); Allan Meltzer (1928 – still alive!) - "A Rational Theory of the Size of Government" (1981); Friedrich Hayek (1899-1992) *The Road to Serfdom* (1944); *The Constitution of Liberty* (1960);
5. **Globalization and the Legacy of Comparative Advantage** – Paul Samuelson

(19152009) – “Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization” (2004); Paul Krugman (1953 – still alive!) - “Is Free Trade Passé” (1987); William Nordhaus (1941 – still alive!) - *Paul Samuelson and Global Public Goods* (2005)