

Should the history of economic thought be included in undergraduate curricula?

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1. The mainstream view

“Economic theory [...] finds no necessity for including its history as a part of professional training”. In the decades since Gordon (1965, pp. 126) stated this view, it has remained a mainstream tenet. It was already a mainstream tenet thirty years earlier, in the 1930s, when economists belonging to the then dominant Marshallian tradition such as John Hicks and Dennis Robertson argued that there was no point in wasting time reading the classical economists.² (Later, after the Sraffian Revolution and in opposition to it, Hicks began to refer to classical economists in his writings, but some mistakes appear to confirm his earlier attitude).³

According to Gordon, history of economic thought is not useless since it can help students in gradually scaling the heights of economic theory, but it remains a detour in comparison with direct perusal of contemporary economic theory. From this point of view, we may add, HET’s pedagogical usefulness is reduced whenever there is discontinuity in the development of the analytical toolbox with no change in the underlying worldview, as in fact happened after the Second World War with the publication of Samuelson’s *Foundations* (1947).

Of course, this does not mean that specialists should not be allowed to devote themselves to it: as with other cultural ventures, “we study history because it is there” (Gordon, *ibid*). And there is a subtle justification for inserting it in graduate economic curricula (a justification now apparently overlooked, since HET rarely gets a look in even there), which we may derive from one of the leading mainstream scholars in the field: Jacob Viner.

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² Letter by Robertson to Keynes, 3 February 1935, in Keynes, 1973, vol. 13, p. 504; letter by Hicks, 9 April 1937, in Keynes, 1973, vol. 14, p. 81

³ For instance, in the first edition of *A theory of economic history*, Hicks (1969, p. 168) erroneously stated that Ricardo had never made use of numerical examples in his *Principles*. On the revival of the history of economic thought in the wake of the Sraffian Revolution in the 1970s, cf. Marcuzzo and Rosselli, 2002.

According to him, although theoretical research comes uppermost, HET may contribute to the formation of researchers. As Viner (1991, p. 385 and 390) says, “the pursuit of broad and exact knowledge of the history of the working of the human mind as revealed in written records”, namely “scholarship”, implies “a commitment to the pursuit of knowledge and understanding”: “once the taste for it has been aroused, it gives a sense of largeness even to one’s small quests, and a sense of fullness even to the small answers [...] a sense which can never in any other way be attained”. In this sense, HET is important for the education of researchers, even if it is not necessary for their training. To the many who are not willing to recognize this, Viner, with his aristocratic bent, might have answered by paraphrasing John Stuart Mill (1863, p. 281): “It is better to be a human being dissatisfied than a pig satisfied, better to be Socrates dissatisfied than a fool satisfied. And if the fool, or the pig, are of a different opinion, it is because they only know their own side of the question”.

Along much the same lines as Viner, namely considering HET as an activity inferior to theorizing, useful but not strictly required for the training of economists, we find the other leading historian of economic thought of the 20th century, Joseph Schumpeter. “We stand to profit from visits to the lumber room provided we do not stay there too long” (Schumpeter 1954, p. 4, where the qualification sounds self-ironical, considering the amount of time Schumpeter himself spent in “the lumber room”). In other terms, studying previous economists’ accomplishments should not take too much of the contemporary economist’s time out of theoretical and applied research. HET may nevertheless be useful, for a reason similar to the one given by Viner: it “will prevent a sense of *lacking direction and meaning* from spreading among the students” (Schumpeter, 1954, p. 4; italics in the original).

In other terms, even in the context of a single paradigm, HET can help in understanding economic theories, by pointing to the social, political and cultural context of their origins and their diffusion, such as what problems they aim at solving or which ideas they are meant to support or to oppose.

2. The hidden assumption of the mainstream view

Schumpeter implicitly pointed to other reasons, which we shall consider below, for attributing to HET an important role in economists’ basic training; however, as we shall see, such reasons acquire significance only within a different context, namely from a non-mainstream point of view. Within the mainstream approach, explicitly or – more often – implicitly, a sort of positivist attitude dominates: economic knowledge grows over time, through accumulation of new theories and new empirical knowledge; the personalities of the economists, their ethical values or their basic vision of the world (their *Weltanschauung*)

are external to the field of economic science and should rather be considered as belonging to the field of cultural history, together with the history of mathematics or physics.

As a matter of fact, viewing HET as belonging to the general field of the history of culture rather than the broad field of economics is an attitude taken by some contemporary historians of economic thought.⁴ This viewpoint was taken to its extreme consequences in the – luckily unsuccessful – attempts to remove HET from economic research classifications, first in Australia (by the Australian Bureau of Statistics in 2007) and then in the European Union (by the European Research Council in 2011).⁵ My view is that HET belongs to both fields: a good practitioner of HET should be both knowledgeable in economic theory and in the history of culture.⁶ Since the present paper is concerned with the role of HET in economic curricula, it is quite natural for the relationship between HET and economic theory to dominate the argument. As for the partition of academic careers, an opening to HET should be left in both fields, depending on the individual researcher's specialized contributions, as is the case in many other bridge disciplines.

Underlying the mainstream view on the limited usefulness of HET is a clear – though never explicitly stated – assumption, namely that there is but one correct approach to economics. We may label this a “cumulative view”: economics does change over time, but with steady progress in the understanding of economic reality, piling up new theories and new facts. As mentioned above, the toolbox of the economic theorist may change (for instance, from Marshallian U-shaped cost curves to axiomatic Arrow-Debreu general equilibrium theory), but the underlying pillar – in short, the notion of market equilibrium between supply and demand – remains the same. From this viewpoint, the provisional point of arrival of contemporary economics incorporates all previous contributions in an improved way.

The “cumulative view” has, as its methodological (but often implicit and occasionally unconscious) background, a positivist view of science: economic theories based on deduction from first principles (scarcity of resources, agents' preferences, demand and supply equilibrium) are either logically consistent and hence true given the premises, or logically contradictory and hence false; factual statements are once again either empirically confirmed or contradicted; science progresses as theories and knowledge of facts cumulate.

This viewpoint has been supported by mainstream historians of economic thought (from Jacob Hollander, 1904, 1910, to Samuel Hollander, 1973, 1979) through an interpretation of classical economists aligning

⁴ Cf. for instance Schabas, 1992.

⁵ The story is told by Steve Kates, forthcoming.

⁶ On this point cf. also Marcuzzo, 2008.

them with the supply-and-demand-equilibrium view, so that they can be considered as perceptive but defective precursors of later views. This explains the importance of Piero Sraffa's (1951) reinterpretation of Ricardo (and with him of the whole Classical economists' approach) as embedded in a different paradigm, which can be succinctly expressed as the "picture of the system of production and consumption as a circular process" (Sraffa, 1960, p. 93). In fact, in the 1960s and 1970s the debate between the contending paradigms proceeded along two parallel paths: the "Cambridge controversies" in the theory of capital and distribution (as illustrated for instance in Harcourt, 1972) and debates in the history of economic thought concerning, for instance, the role of supply and demand in the Classical (Smith's or Ricardo's in particular) theory of value and distribution.

3. The role of HET when the existence of different approaches to economics is recognized

As soon as we recognize the existence of different (and contending) paradigms,⁷ the history of economic thought acquires a new, much more relevant, role. This is where Schumpeter's distinction between different stages in economic theorizing is relevant.

As is well known, in the first pages of his *History of economic analysis* Schumpeter (1954, pp. 41-42) identifies distinct stages in economic research: i) the "pre-analytic cognitive act" or "vision", meaning by this a vague vision of the issue to be considered and some tentative hypotheses as to the direction of research; ii) conceptualization, namely "to verbalize the vision or to conceptualize it in such a way that its elements take their places, with names attached to them that facilitate recognition and manipulation, in a more or less orderly schema or picture"; iii) model building and, finally, iv) the application of such models to the interpretation of economic reality. What matters to us here is the second stage, quite often overlooked though Schumpeter himself attributes great importance to it.

Conceptualization, in fact, becomes an essential aspect of the economist's work when the vision that the researcher is trying to develop differs from the visions adopted/developed by other theoreticians. It is in this stage of work that the theoretician can clarify the distinct character of her/his own representation of the world: not only the relative importance attributed to different aspects of the real world, but also and especially the perspective from which each aspect is viewed. Conceptualization is a complex activity, where for instance the requirement of consistency (which of course still holds) has a different, broader meaning as compared with the formal coherence required of mathematically-framed theories; in any case,

⁷ It is beyond the scope of this paper to discuss the critiques of positivism and the alternative methodological views (Kuhn, Popper, Lakatos, McCloskey and so on). For a very concise survey of some of these views from the point of view of the history of economics cf. Roncaglia, 2005, chapter 1.

conceptualization represents the (explicit or implicit) foundation for clarifying the connection between such mathematically-framed theories and the real world. For example, a formal model of functional income distribution relies on a class representation of society; analysis of financial managers' incentives relies on the conceptualization of a managerial (large corporations) economy rather than an economy based on small competitive firms.

Quite commonly, mainstream theoreticians overlook the role of this stage in economic research. This is clearly due to the fact that the underlying vision of the economy is common to all of them (though with different nuances) and is considered the only possible one. Supply and demand reasoning reigns supreme; differences between streams of mainstream economics are a matter of the framework to which supply and demand analysis is applied, as for instance when introducing market forms different from perfect competition, imperfect and asymmetric information, and the like. Thus, it is only these latter aspects that are considered when illustrating the conceptual foundations for the activity of model-building.

On the other hand, there are profound differences in the visions of the economy underlying Classical, Keynesian and neoclassical-marginalist economics. In order to understand them, recourse to the history of economic thought is necessary: it is only when seeking through HET a direct understanding of the visions of the world of a Smith, a Ricardo, a Keynes, a Jevons or a Walras that we can perceive these differences, and the true content of the different concepts referred to in formal analyses of the economy.

4. An illustration: Classical and marginalist conceptualizations of the economy⁸

Let us briefly consider, by way of illustration, the main differences between the classical and the marginalist/neoclassical conceptualizations of the economy.

The classical economists saw the economy as first and foremost characterized by the division of labour. There is not only separation of tasks within each production process, but also specialization of the different productive units turning out different (bundles of) commodities. Thus, at the end of each productive process, each productive unit (and each sector, or in other words each set of productive units utilizing similar production processes and producing similar commodities) needs to recover its means of production in exchange for at least part of its products. This gives rise to a web of exchanges which are necessary for

⁸ This outline presentation of the differences between contending approaches (for which I have drawn on Roncaglia, 2010) ignores important differences internal to each approach. We also leave aside a basic notion brought to the fore by the Keynesian approach, namely the notion of uncertainty (on the differences between the Keynesian and the Knightian notion of uncertainty, cf. Roncaglia, 2009; it is this latter notion which has been embodied in the mainstream conceptual framework). For fuller illustration of the different views, cf. Roncaglia, 2005.

the economy to subsist. Indeed, analysis of the conditions necessary for the vitality and sound functioning of a market economy based on the division of labour is the main object of the classical approach. Thus, according to the classical economists, in a market economy the exchange ratio between commodities must be such as to allow each sector to recover physical production costs and obtain profits constituting sufficient incentive to continue activity. Taking into account the dominant technology and a uniform profit rate – corresponding to the assumption of free competition, or in other words the absence of obstacles to capital movements from one sector to another – the classical economists set out to determine production prices: those prices, that is, which are compatible with regular continuation of economic activity. Within their approach, income distribution between profits and wages is not univocally determined by technical givens, and is commonly treated as an open (economic, but also socio-political) issue.

On the other hand, according to the marginalist/neoclassical approach, economic agents have at their disposal given amounts of scarce resources (or original endowments); these are then utilized to satisfy their needs and desires (directly, through exchange and consumption, and indirectly, through production processes in which productive resources are transformed into consumption goods and services). Indeed, analysis of the conditions under which resources are optimally allocated to the satisfaction of human needs and desires is the main object of the marginalist approach. The market here is a point in time and space where demand and supply meet: its archetype is the market fair, and in more recent times the stock exchange or, more precisely, the old-fashioned continental exchanges, based on call markets, even more than the continuous dealing Anglo-Saxon exchanges which constitute the rule in contemporary economies. (In the classical approach, as pointed out above, the market is a web of commodity flows, recurring period after period, which link up all sectors of the economy.) As an implication of this viewpoint, within the marginalist approach the notion of prices refers to indicators of the relative scarcity of goods and services available at each given moment in time to satisfy the needs and desires of economic agents. This implies assuming the relative intensity of needs and desires as given data in addressing the problem. In the classical approach, on the other hand, prices are indicators of relative difficulty of production;⁹ the problem here is how to express in terms of value – in terms of a single magnitude, that is – all the different physical costs while at the same time respecting the distributive rules of a capitalist economy; consumption choices are analyzed, rather, by reference to (social) habits evolving over time. Similar differences can be illustrated for the notions of social classes and the analysis of income distribution, the notion of competition and the analysis of market forms, and so on.

⁹ “Relative” here refers to comparison between the different production processes; in marginalist analysis, instead, “relative” refers to demand-supply comparison which, in a general equilibrium approach, concerns simultaneously all the goods and services in the economy.

5. Conclusions

An execrable practice in drawing up undergraduate curricula is to include only the study of the mainstream approach in its various components. The customary excuse for this is that presenting a single truth and avoiding controversy simplifies life for the students – with, once again, the covert assumption that there is only one single ‘true’ approach in economics. This authoritarian attitude implies that eighteen-year-olds may have the right to vote in political elections but they still remain so simple-minded as to get confused when confronted with a simple fact of life, namely that there are different and often conflicting viewpoints for all aspects of life, including how a market economy works. On the contrary, and even if students were unable to make up their own minds about contending economic approaches – provisionally, of course, and keeping an open mind, as we all should do – it is of the utmost importance that they be educated to take pluralism in their stride, in economics as in any other subject matter.

Thus, in undergraduate education, HET has a crucial democratic role, confronting students with the idea that there are different approaches to economics, and providing them with some notion of the conceptual foundations of such approaches: the background they emerged from and their evolution in response both to theoretical debate and to historical events. This helps towards a better understanding and evaluation of formalized theories/models, thus constituting a prerequisite for serious study of economic theory.

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