

Notes for PS 641: The “Big-Think” Socio-Economic Philosophers

- Two Tasks for this week: grounding, at broadest level, in macroeconomic theory, especially in so far as it may enlighten our understanding of basic economic conflicts in society; and understanding and theoretically coping with the “political power of economic ideas”
- Grounding in (history of) economic theory, esp. in how it may enlighten us on sources / configuration of basic economic conflicts in society
 - C Tracing the progress of economic understanding: in following table braces, { }, mean the idea is foreshadowed or introduced, but really or more fully developed by a later figure
 - C diagrams of paths of economic development by figure follow the table (I haven’t sketched these on the computer yet.)

Names	Time	Basic “Insights”	Fundamental Conflicts
1 Mandeville (Hobbes) 2 Quesnay 3 Hume, <i>etc.</i>	late 17th C - Smith	1 mercantilism 2 physiocracy 3 {Laissez-Faire}	1 state against state 2 agriculture (productive) v. rest (consumptive) 3 {coop. in world of iterated PD or collect. action prob}
Adam Smith	1776 (+/-)	a “invisible hand; b division/spec. labor; c markets self-reg; d {comparative advantage}; e {labor theory of value}; f law of population; g progress by competition producing (innovation and specialization) producing ever-increasing efficiency	tendency toward collusion among producers vs. society land vs. cap vs. labor (in long-run) resisting tariffs, collusion, and <i>unproductive</i> gov’t spending
1 Malthus 2 Ricardo	1800-25 +/-	1a Malthusian Trap; 1b {“general glut”} 2a Ricardian Rents; 2b Comparative Advantage; 2c {labor theory of value} 2d {economic modeling}; 2e concept of a long-run steady-state	1 people vs. (nature and themselves) {aggregate demand as a potential coordination problem} 2 landowner vs. everyone else (labor irrelevant to Ricardo though)
1 Luddites 2 Robert Owen 3 Saint-Simon 4 Ch. Fourier 5 J.S. Mill	1820 -1850 +/- (Mill lives to <i>ca.</i> 1875)	1 Machines take jobs 2 cooperatives, “father of unions” 3 environment makes people, people make the environment, ^ society can be engineered 4 “amicable competition” (for pride in work) could sub. for mkt pressure 5a mrkt for prod./alloc., (re-) distribution separate question; 5b steady state (b/c law of pop. shows diminishing returns and profit also diminishing returns); thus focus turns to justice <i>etc.</i> 6 socialism	1-2 workers v. capitalists 3-4 collective-action, social-engineering problem 5a more or less a Ricardian world, but 5b gov’t can tax away rents & inheritances, capitalists can be bought out & retired on annuities, leaving socialism; more generally gov’t can redistribute mrkt outcomes
Karl Marx (and Friedrich Engels)	1848 +/-	a dialectical materialism; b inherent contradictions of capitalism; c societal superstructure built on & reflects economic structure;	capital v. labor in particular, gov’t reflects underlying econ. struct., so Mill’s solution (Marx

		<p>d labor theory of value, surplus value, and rate of exploitation; e “industrial reserve army”; f ever-worsening crises of under-consumption in capitalism; socialism / communism</p>	<p>hadn’t heard it from Mill) won’t work {later, capitalist systems v. non-capitalist systems}</p>
<p>1 Edgeworth 2 Walras 3 Marshall & Jevons 4 Bastiat 5 Henry George 6 (Mumery then) Hobson (then Lenin)</p>	<p>Turn of (19th-20th) Century</p>	<p>1 Bentham + Darwin + Modeling & <i>Equilibrium</i> ==> e.g., contract curves, First Fundamental Theorem of Welfare Economics 2 general equilibrium 3 modeling; Marshallian money 4 the economist as a public policy critic (esp. <i>via</i> the press) 5a Ricardian World only rents hurt labor too/esp. and rents have become capital gains more broadly; 5b Millian governments only explicit about 100% tax on rents; 5c his emphasis on speculative bubbles is more original 6 M: “general glut” reborn as problem of distribution: rich lower propensity to consume, H: capital solves this problem by expanding mrkts 6 imperialism 6 Lenin expands on H and acts on the logic</p>	<p>1-3 the usual bogey-men of collusion and monopoly; unequal starting positions source of all ethical issues (which latter are strictly separable from positive ones) 4 bad policy b/c policy-makers are stupid or captured by “special-interests” 5 speculator vs. society, privileged vs. society, coordination problems 6 capitalist states vs. exploitable states (this not important issue to these guys, though); capitalist states vs. each other in quest for exploitable states (this the issue they found important; through Lenin anyway)</p>
<p>Thorstein Veblen</p>	<p>mid-18th C to Turn of C</p>	<p>a conspicuous consumption; b concept of a leisure class; c concept of the (esp. financial) capitalist as “speculative saboteur” of the system</p>	<p>engineer (productive capitalist) vs. financier (speculative saboteur); system survives b/c workers agree with own down-graded status in it</p>
<p>Max Weber</p>	<p>1864-1920</p>	<p>a soc., legal, and pol. system that underlies and is requisite to capitalist development; b role of money system of exchange in making capitalism even possible; c <i>inherent tensions</i> of soc., leg., pol., & ec. norms; d [invented sociology, & perhaps soc. sci.]</p>	<p>focus is not so much on conflict of groups as conflict of ideational / structural under-pinnings of market organization with other ideational / structural system {his economics is physiocratic in this sense}</p>
<p>(Sir) John Maynard Keynes {should be noted that much Keynesianism is actually specific to IS-LM model, which begins</p>	<p>Interwar - Immediate Postwar</p>	<p>a the follies of punitive peace; b the follies of sacrificing policy discretion to arbitrary rules like gold standard and balanced budgets; c saving-investment eqbm not automatically at optimum but “animal spirits” expectations, so $S(r, \Phi) = I(r, \Phi)$ can occur at any level of output, they could also spiral downward or upward since...; d expectations self-reinforcing e aggregate demand = coordination problem, <i>and</i> gov’t can & should manage it;</p>	<p>c,d,e,f Keynes himself saw little conflict of interest in macro-pol, saw instead mostly a coord. prob. a,b,e,f Keynes saw, if anything a peculiar devotion to arbitrary rules especially in international policy, <i>i.e.</i> saw problems as failures to understand how economies actually work (sometimes b/c no one did know sometimes b/c policy-makers didn’t know but should) g,h He actually ended optimistic because economy was increasingly “understood”</p>

with John Hicks' attempt to bridge Keynes and classical}		<p>f international coordination of demand policy;</p> <p>g constant productivity growth and slowed population growth ==> long-run outlook always positive if demand managed; and (but?)</p> <p>h "in long run we're all dead"</p>	<p>so it could be adroitly managed to stay on upward path--so long as we paid enough attention to the <i>short</i>-run management to allow the long-run to happen</p> <p>* later, as a result of Hicksian IS-LM, Keynesianism became worker (employment-concerned) vs. capital (inflation-concerned)</p>
Joseph Schumpeter	Just pre-war - Immediate Postwar	<p>a economy as a "circular flow";</p> <p>b growth <i>via</i> "creative destruction"</p> <p>c <i>innovation</i> & the <i>entrepreneur</i> as key</p> <p>d (Weberian) dev'p of cap. exhibits tendency toward sclerosis <i>via</i> institutionalization & routinization, & toward undermining any (including its own) system of norms <i>via</i> its rational scientivism</p> <p>e best & brightest are who rise to top in capitalist competition</p>	<p>b,c <i>entrepreneur</i> vs. established (financial & physical) capital (worker a by-stander in this) routinization / institutionalization</p> <p>d <i>entrepreneur</i> v. institutionalization & routinization; and</p> <p>d Weberian <i>inherent tensions</i> in the underlying structure of norms</p> <p>e elites v. non-innovative masses</p>
1 Gerschenkron 2 Kuznets	1960s-70s	<p>1 "economic backwardness" ==> poor can leap-frog rich countries by adopting technology not create it</p> <p>2 current level of development implies a particular distribution of income, hump-shaped</p>	<p>1 rich vs. poor countries as former try to prevent latter from taking advantage of the leap-frog poss.</p> <p>2 current distributional goals vs. long-run growth and efficiency goals (former short-sighted)</p>
The Moderns: 1 Robert Lucas 2 Arrow-Debreu 3 Coase 4a neo-classicals vs. 4b neo-keynesians	Post-Oil-Crises (1970s +)	<p>1 rational expectations (RE)</p> <p>2 <i>very</i> general equilibrium: including implicit markets in all future and/or uncertain quantities</p> <p>3 allocation / determination of property rights</p> <p>4 debate over the significance of market imperfections and missing markets and over whether, given RE, anything can be done about it</p>	<p>1 {either no conflict, or politicians exploiting myopia vs. society}</p> <p>2 {conflict if missing markets create "virtual monopolies"}</p> <p>3 conflict over preserving the privileges conferred by current or <i>de facto</i> property rights</p> <p>4a: no conflict, or stupidity, or myopia, or "misguided attempts to alter market outcomes," or Smithean world of collusion & special interest</p> <p>4b: Theory of the Second Best: if economy is not at optimum, policy can improve things but conflict because various policy options favor different folk</p>

● "Ideas" as elements of our theories about Policy-making

- C Heilbroner more or less assumes they have political impact, not much tracing exactly what impact (controlling for other factors) and nothing about what if any role they should thereby earn in theories of policy-making
- C Marx, Weber, and Schumpeter, especially and directly, and perhaps Keynes and Lucas indirectly through expectation formation, we have to think about on two levels because their own theories give a (variously) large place to role of ideas
 - C Marx: merely epiphenomenal?--merely reflect/support (various class elements of) underlying ec. struct.?
 - C Weber and Schumpeter: play key (and upsetting) role here as a core part of ideational / structural under-

- pinning of capitalist society
- C Keynes and Lucas: if expectations so key, do not the theories by which we predict play key roles almost by definition (unless we want to say that our theories are exactly correct)?
- C Hall: attempts to offer guides for theorizing about impact of ideas
 - C **Three Approaches** discernable in works
 - C Economist-Centered: do ideas become consensus or strongly-/widely-held expert view
 - C State-Centered: does state have apparatus to understand / implement policy prescripts, prior exper.
 - C Coalition-Centered: does / can the idea create / unite a winning coalition group of pol. interests
 - C These highlight **Three Factors weighing in Policy-Makers judgement** of ideas / theory
 - C economic viability: does it work? will it solve economic problems?
 - C administrative viability: does idea and its requirements fit existing state capacities an ideas?
 - C political viability: does new idea fit with current ruler's interests? can it generate a winning coal. to unseat the incumbent?
 - C These in turn highlight **Four Groups of Variables** that must be analyzed
 - C Orientation of Governing (and Opposition) Parties
 - C Structure of State-Society relations: permeability of civ. serv., concentration of macroeconomic policy-making power, and in particular central bank status
 - C Structure of "Political Discourse": how does idea fit with existing body of (primarily accepted) ideas / theories about how pol/econ/soc organized? Basically two options: Bayesian priors or cognitive dissonance
 - C Impact of World War Two: crucial testing ground and (Hegelian) shake-up of existing environment of Political Discourse. H is describing this as a crucial factor for Keynesian ideas taking hold; is there something generalizable about the experience though?
- C Other options:
 - C Shepsle (and numerous others): "ideas as hooks" (a piece in Noll, Roger, ed. Regulatory Policy and the Social Sciences (U Cal P, 1985): 231-39. Recently Judith Goldstein and Robert Keohane have edited a book on ideas and politics, in which Shepsle's "ideas as hooks" notion is played for a straw man.)
 - C Numerous: ideas are important, sure, but not necessary to theory b/c if they weren't brought forward by X, Y would have arisen and brought them forward. Moreover, they only "influence" when structure of interests would have them "influence." (back to Shepsle) *I.e.*, no independent role in explanation.
 - C Consider the recent "CPI" debate in these lights. Check out, e.g., "Bias in the CPI: What is the evidence?" by Moulton in the Journal of Economic Perspectives (p. 159, Fall 1996).