

Week 1

From Scholastics, Physiocrats & Mercantilists to the Early Classical Economists:

Competing Views of Competition and the Rule of Markets

Readings:

Primary Sources:

Adam Smith, *Theory of Moral Sentiments* (1759) **Part I, Section 1**, Ch. 1, Ch. 3, Ch. 5; **Part I, Section 3**, Ch. 2; **Part IV**, Ch. 1. Adam Smith, *The Wealth of Nations* (1776), **Book I**: Chapters 1-10; **Book II**: Ch. 2, paragraphs 94-106.

Related Themes in Recent Economic Debates: Society, Polity & the Rule of Markets

Christ, Carl F. *The Competitive Market and Optimal Allocative Efficiency* **ER**

Hayek, "Competition as a Discovery Procedure." **ER** Karl Polanyi, *The Great Transformation*, "Societies and Economic Systems," Ch. 4 **ER** Maurice Dobb, "Capitalism," Ch. 1, *Studies in the Development of Capitalism* (1947) **ER**

Secondary Source & Historical Perspective

Charles E. Staley, *History of Economic Thought: From Aristotle to Arrow*, p. 3-16, 31-40 **ER**

Background:

Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776, spells out a comprehensive theory of markets that becomes the basic framework for modern microeconomics. A fundamental concept for Smith is the productivity-enhancing nature of specialization. He provides a detailed description of production processes in which the division of labor has reached particularly advanced stages entailing a remarkably minute breakdown of tasks. The resulting productivity gains, we are told, work through multiple channels.

Smith recognizes that the rise in specialization will create heightened interdependence. The increased reliance on others, however, is no cause for concern; wants will be satisfied through the pure self-interest of other buyers and sellers. The unrestricted workings of the market thus

provide the ultimate mechanism for coordinating a diverse set of economic desires. Furthermore, the productivity-enhancing benefits of specialization will grow with the extent of the market, thus making the expansion of trade a major engine of both economic growth and improved consumption opportunities.

In this week, we also see another side of Smith revealed in his earlier work The Theory of Moral Sentiments (1759). This manuscript was written more than a decade before the Wealth of Nations. You may want to compare Smith's view of human psychology from Moral Sentiments with his view of self-interested behavior in the realm of markets. Is any way in which to reconcile the two perspectives? Or has Smith's thinking simply evolved in a totally new direction by the time he writes the Wealth of Nations?

In order to encourage you to think more deeply about Smith's classical analysis and the subsequent neoclassical formulations, I have included in this week's readings material by Karl Polanyi (1886-1964), Maurice Dobb (1900-1976), Hayek (1899-1992) and Carl Christ (1923 -). Polanyi suggests that the social relations and behavioral motives described by Smith were neither natural & "universal" nor historically typical. He offers an alternative view of the division of labor and the self-regulating market. While Smith emphasized the mechanical efficiency inherent in the division of tasks, Polanyi looks at the social relations of production implied by this increased specialization and "rule of the market." Polanyi's analysis starts from viewing man as a social being with the trait of social orientation, not acquisitiveness, being the primary motivation for human behavior. From Polanyi's perspective, the division of labor in **pre**-capitalist arrangements was very different from that under capitalism. Under capitalism, increased specialization and division of labor typically cut labor off from owning the tools of production and, thus, from establishing any self-sufficiency separate from the capitalist enterprise. Maurice Dobb reinforces the importance of this new feature in the social organization of production. His chapter on the definition of capitalism illustrates how the meaning of the term itself has evolved along with changing

economic arrangements of production and exchange.

Carl Christ provides an updated, neoclassical version of the conditions necessary for private markets to reconcile private and public interests. Most of Christ's conditions for perfect competition can be found in Smith's early chapters of the Wealth of Nations. You might ask yourself what is simply a re-statement of Smith and what is new? Likewise, Friedrich Hayek offers an interpretation of the workings of the competitive process in unfettered markets. You should think carefully about how Hayek's view of competitive markets compares with that of Smith and Christ?

The required secondary reading for this week, by Charles Staley, provides essential background for our introduction to the history of economic thought. Staley, describes the writings of both the Scholastics (c. 13th-14th centuries) and the Physiocrats (c. 18th century). His overview of the Scholastics reveals that efforts to establish "economic truths" far predated Adam Smith, while his evaluation of the Physiocrats suggests that they deserved more attention than they were typically given by the early classical thinkers. Staley also provides a useful introduction to mercantilism, a topic which will be central to our discussion of trade and treasure in Week 2.

Essay Assignment:

In writing your essay, make sure to demonstrate mastery of the assigned readings and be sure to explain any technical terms that you use. Support your arguments with evidence from the readings.

Your assignment for this week is to write an essay commenting on the following statement.

From each of the economists studied this week and from the varied schools of thought, we seem to inherit starkly different views of competition and the rule of markets. Economists seem unable to agree on exactly *what* of value emerges from competition and on exactly *how universal* markets have been and need be in ordering human interactions. In fact, we find what might be interpreted as dramatically altered views even between the mature Adam Smith and his earlier, younger self! We are left with little guidance as to why we should value competition and whether, as Smith implies, it is always in the nature of man to be governed by market forces and to order human relations according to market rules.

Essay Mechanics: All essays are due **in class** no later than the start of the Friday tutorials. This is a **strict** deadline. Late papers and late arrivals to class disrupt the structure of the tutorial. Please note that you must also upload your essay to TURNITIN.COM on Friday by 11pm. In order to sign up for our course in TURNITIN.COM, you will need the **course**

name: CSS220_FALL2010, the **course password:** ADAM1, and the **class ID:** 3388788

Essay Style: I strongly recommend that you outline your argument before you begin to write. If you have difficulty starting, begin by using simple and standard expository style in sketching your outline: Intro (Theme and organizational structure of points to be addressed); Body of the Paper (Each paragraph has a point backed up by evidence from the readings); Conclusion (Add no new arguments here; Simply reiterate the theme and major points in compelling language). The intro and conclusion will form the first and last impression of your paper. As such, these parts should be particularly well written. In fact, you may want to refine these sections last. Please do not hand in an un-revised, un-edited first draft. Revise, edit, and polish BEFORE you submit the final paper.

Think of the first essay as a trial run. We will use it as an example of what to do and not do in your subsequent essays. Essays should be between 4-5 pages, double spaced, with one-inch margins and 12-point font. Number the pages! Provide a title for your essay. Make sure that your name is on the paper. You should use MLA format throughout your paper. Use in-text citations where possible. (Please see Diana Hacker, *A Pocket Style Manual*, for guidelines on this MLA style. You may purchase this very useful book at Broad Street Books. It has been ordered for our course, and I will use it as a reference tool throughout the semester.)

Preparation of the Material: You should prepare for your essay and your tutorial by considering the focus questions below. You need not address *all* of these questions in your essay, but consideration of these questions should be a part of your groundwork for preceptorial and tutorial discussions. For this reason, I strongly recommend that you jot down thoughts on each question as you review this week's material and prepare for tutorial.

Focus Questions: The following questions will help you focus your thoughts before you begin to organize your essay and will also help you prepare for this week's discussion.

Exactly how does the division of labor promote productivity according to Smith?

What does Smith mean by natural price? Market price? Use value? Exchange value? What factors determine each of these?

How does the competitive market reconcile public and private interests? What specific conditions are necessary?

Is Smith's view of human psychology from Moral Sentiments compatible with his view of self-interested behavior in the realm of markets from Wealth of Nations? Is there any way in which to reconcile the two perspectives?

Are free markets and unregulated trade always best in Smith's view?

What does Smith mean by the extent of the market, and why does he find it important?

Does the increased interdependence inherent in specialization successfully mesh with "egotistical" self-interested man in Smith's view? How does this happen in Smith's framework?

What is new and what is simply "more of the same" when you compare Christ's understanding of competitive markets with that of Smith?

How does Hayek's understanding of competitive markets compare with that of Smith? Christ?

Do any aspects of Smith's work show similarities with aspects of

- a. Scholastic economic thought?
- b. Physiocratic economic thought?

In what ways was Smith's analysis different

- c. From that of the Scholastics
- d. From that of the Physiocrats

In evaluating Smith's role in economic analysis, does Smith's work represent evolution or revolution in economic thought?

Week 2

Trade and Treasure

Readings:

Mercantilists

Malynes, *Consuetudo vel lex mercatoria* (1636) p. 45-48, 227-9; Ch 2, 262-3, 280, 283-4, 286-7 Mun, *England's Treasure by Forraign Trade* (1664) **Classical Economists**Hume, "Of Money" and "Of the Balance of Trade" (1752) Smith, *The Wealth of Nations* (1776), **Book IV:** Chapters 1-8Ricardo, *Principles of Political Economy and Taxation* (1817), Chapters 7, 19, 22, 25, 28, 30**Related Themes in Current Economic Debates:**

Stiglitz, *Globalization & its Discontents, Preface-Ch.1 & Social Justice & Global Trade* (2006)Krugman, *Does 3rd World Growth Hurt 1st World & "What do Undergrads Need to Know"* Faux, "Trade Policy and the American Worker," (2010)Culbertson, "A Realistic International Economics" (1987) (Optional)

Secondary Sources:

Johnson, *Gerard de Malynes & the Theory of Foreign Exchanges (JSTOR)* Staley, Review the pages from Tutorial 1 and add **pages 17-30. (ER)**

Background:

Adam Smith's Inquiry into the Nature and Causes of the Wealth of Nations spelled out a specific scenario for the promotion of economic growth. His discussion was, in part, a response to mercantilist strategies toward trade that had dominated policy in the seventeenth and early eighteenth centuries. You will find these strategies represented in two of the readings listed above. The first, published in 1636, is Consuetudo vel lex mercatoria by Gerard de Malynes. The second is the tract England's Treasure by Foreign Trade, written by Thomas Mun (1571-1641) and published posthumously in 1664. Although the thinkers labeled "mercantilists" by Adam Smith held disparate views, their writings generally agreed on the need for a favorable balance of trade (i.e. the value of exports exceeds the value of imports). The policy was said to increase the stock of "treasure" (gold and silver) and thus enrich the nation.

Two strands of mercantilist thought (c. 17th-18th centuries) should be considered. According to the "bullionist" position, the state should prohibit the export of gold and silver in order to maximize the stock of treasure. In contrast, certain mercantilists maintained that a properly directed outflow of treasure would ultimately add to the stock of precious metals held by the state.

In reading this week's material, you should decide which of these positions is taken by Thomas Mun and why. Note that Mun was an official in the East India Company, a chartered monopoly created in 1600. The Company held exclusive rights to all British trade to the east of the Cape of Good Hope, including Asia, the Indonesian archipelago, and East Africa. It was authorized to export annually up to 100,000 pounds of treasure.

Smith (1723-1790) offered a prescription for economic growth that called for the removal of trade restrictions. Remember that Smith published his Wealth of Nations in 1776, about 100 years after Mun's treatise. The two were not contemporaries. In fact, Smith was born more than 150 years after Mun. While Mun lived in a world of transition toward a newly emerging capitalist system, Smith observed a world in which the major traits of capitalist production and exchange had become evident.

Smith's call for free trade was consistent with arguments summarized earlier by David Hume (1711-1776). Writing in the mid-eighteenth century, Hume argued that a serious flaw afflicted that mercantilist thinking. He based his criticism upon the notion of a self-adjusting, specie-flow mechanism. In the articles by Hume listed above, one finds Hume's description of this adjustment process along with the fundamental elements of the quantity theory of money. This latter concept provided the foundations for the modern-day quantity theory, which became a prime target in the writings of Keynes (1883-1946) and occupied the center of many macroeconomic debates in the decades to follow. Keynes' interpretation of mercantilist thinking was more sympathetic. His contrasting interpretation of mercantilism, found in

Chapter 23 of The General Theory of Employment, Interest and Money, is included in your readings for week VII of our tutorial.

In his Principles of Political Economy and Taxation, published in 1817, David Ricardo (1772-1823) investigates international specialization and refines the gains-from-trade argument. The concept of comparative advantage is central to his analysis. By numeric example, Ricardo demonstrates that when wine made in Portugal exchanges for cloth made in England, both countries increase total "enjoyments." This defense of free trade bolsters Ricardo's attack on the Corn Laws, restrictive tariffs imposed on the importation of grains. British grain prices, at the time, far exceeded the prices of imported foreign grains. In restricting grain imports through the Importation Act of 1815, the landed classes, who still controlled Parliament, hoped to prop up grain prices and protect their income. The Corn Laws were to stay in place until 1846. Their demise reflected a shift in political power away from the landed class.

The 17th and 18th century trade debates lend themselves readily to comparisons with more modern trade controversies. The readings by Paul Krugman, Joseph Stiglitz, and Jeff Faux bring the debates over gains from trade up to date. In their essays, Krugman and Stiglitz discuss what they consider the common misconceptions about trade made by people who, in their view, are less versed in economics. Jeff Faux, commenting on what we call free trade agreements today, argues that "This is not what Adam Smith, David Ricardo, and the classical advocates of free trade had in mind." Another critic of free trade is John Culbertson whose view is represented by the optional reading on your list for this week. John Culbertson provides an iconoclastic approach, attacking the standard trade analysis of modern-day economics and offering an alternative view of the State's role in the promotion of national interests. Culbertson's unconventional stand (for an economist) resulted in his trade analysis being condemned to obscurity. In fact, Culbertson's work in this area was pointedly ignored by most of the economics profession. He had to resort to publishing his own books as standard publishers rejected his work. However, the article listed here was printed in a well-known journal on the teaching of economics; his views, apparently, found a sympathetic ear among some in the profession.

Essay Assignment:

Your assignment is to write an essay commenting on the following argument in light of the material you have studied for this week. You need not address every point made in the statement. Pick and choose so as to construct a cohesive argument. Support your argument with evidence from the readings:

Generally speaking ... the mercantilist argument is NOT based on an intellectual confusion but rather on a desire to promote growth through expansion of the money supply and a wish to preserve sovereignty. Even today, a nation that permits unregulated transactions across its borders reduces its power to manage and guide its national economy, and to protect and advance the interests of its people. For example, if a nation prohibits its factories from polluting, but permits unregulated imports, competition will force businesses to shift their production to nations that permit polluting. . . .Permitting unregulated imports thus limits the laws and regulations that a

nation can maintain without losing its industries and jobs to other countries. More broadly, unrestricted movement of goods and money across national boundaries ...reduces the independence of a nation and the ability to carry out chosen policies in pursuit of its goals and values. . . . By weakening the effectiveness of the nation as the framework of human organization, and by putting nothing in its place, the free trade espoused by ... mainstream economists could do damage so great as to vastly outweigh any benefits it could confer in technical production efficiency and broadened consumption opportunities.

In writing your essay, make sure to demonstrate mastery of the assigned readings. The following questions may help you focus your thoughts before you begin to organize your essay.

- 1) According to the mercantilist analysis of foreign trade, what was the best path to economic prosperity? Did the Physiocrats have the same point of view?
- 2) What factors might have motivated the mercantilist program?
- 3) According to Hume, what was the basic flaw in the mercantilist strategy?
 - a) What role did the specie-flow mechanism play in Hume's criticism of mercantilism?
 - b) How did the quantity theory of money enter into this critique?
- 4) To what did Smith attribute the mercantilist policies? What did Smith's attack on the mercantilists consist of and how was this argument related to Smith's notion of economic growth and national wealth?
- 5) Were free markets and unregulated trade always best in Smith's view?
- 6) What does Ricardo contribute to the trade analysis that was not already in Hume's or Smith's discussion of trade?
- 7) In what significant ways does Ricardo's approach to economic analysis contrast with Smith's manner of analyzing economic interactions?
- 8) What is the difference between absolute and comparative advantage, and what is the importance of this distinction?
- 9) Is there anything new in the view of trade presented by Krugman or Stiglitz? Explain
- 10) Exactly what does Faux mean when he refers to agreements such as NAFTA as "so-called" free trade agreements? Is there any merit to Faux's analysis?
- 11) How might Smith respond to the ideas presented by Faux? Would he find any points on which he and Faux might agree?
- 12) Do protectionist policies offer any elements of truth for modern-day macroeconomic

analysis or policy? Upon what criteria do you base your decision?

13) Are free trade principles appropriate regardless of the particular economic system or historical period under consideration?

14) Are there any lessons to be learned in comparing the trade debates of the 18th century with current controversies in international trade?

15) Did the progression from the Scholastics, mercantilists, and Physiocrats to the classical school represent pure progress in the sophistication of economic analysis, or were some elements of value for economic analysis lost with the decline of these three schools and the ascendancy of Smith and Hume?

Week 3

Sustainability and the Malthusian Question:

Classical-Era Debates on Sustainability and Progress:

Thomas Malthus, *An Essay on the Principle of Population*, (1778) Preface & Ch. 1, 2, 5, 10
William Godwin, *Enquiry Concerning Political Justice*, (1793) Ch 1, 3, 4. Marquis de Condorcet, *"Historical View of the Progress of the Human Mind"* (1794) [Link 2](#)
Jean-Baptiste Say, *Letters to Thomas Robert Malthus*, Letter 1 & Letter 2.

Related Debates in Modern Economic Analysis:

Phyllis Deane, "The Demographic Revolution" *Electronic*

Reserve Joseph Persky, "Retrospectives: Classical Family Values," *Electronic Reserve*
Gretchen Daily & Ehrlich, "Population, Sustainability..." *BioScience*, Nov. 1992
John Tierney, "Betting on the Planet," *Electronic Reserve* (1990) Lebergott, "Per Capita Consumption and the Angel of the Lord" *Electronic Reserve* (1993) Nafis Sadik, "Poverty, Population, Pollution," *Electronic Reserve* (1992) John Simon, "Population Growth, Economic Growth & Foreign Aid," *The Cato Journal*

Background:

Writing in 1778, Thomas Malthus (1766-1834) combined his theory of population growth with his understanding of agricultural production and came up with a decidedly gloomy conclusion. In the preface to his Essay on the Principle of Population, Malthus describes his work as a response to the views of William Godwin (1756-1836), a philosophic anarchist, and Marquis de Condorcet, a supporter of the early stages of the French Revolution (later imprisoned for criticizing the tactics of the revolutionaries). In fact, Malthus was also reacting against the opinions of his father who supported the optimistic view of human nature and human progress espoused by Godwin and Condorcet. Henry Spiegel, in his book The Growth of Economic Thought, describes the role of family dynamics as follows:

"The history of ideas abounds with views that were formed in opposition to parental authority. Malthus, as well as Godwin and Condorcet, is an example of this. Just as Malthus, when rebutting Godwin and Condorcet, assailed the views of his father, so did Godwin and Condorcet develop their views of the world in conflict with their parents. Godwin, the grandson of dissident ministers and a lapsed cleric himself, was repelled by the narrow Puritanism of his father and never forgot the reprimand he received when, as a child, he profaned the Sabbath by playing with a cat. Condorcet, educated by Jesuits after having been brought up by a devout mother who consecrated him to the Virgin and made him wear girls' clothes until he was nine, became an ardent follower of Voltaire in his twenties and outdid him in his anticlericalism." (Speigel, Growth of Economic Thought, p. 168)

Family dynamics aside, Malthus and the utopians found little common ground. Where Godwin and Condorcet saw human achievement constrained by inequality and by the existing institutions, Malthus found human conditions bound by the immutable laws of nature, laws that no change in institutional arrangements could reverse. In fact, attempts to improve conditions through the English poor laws, according to Malthus, only served to exacerbate the recurrent population crises.

The English poor laws dated back to the early 1500s. In their earliest form, they established the responsibility of each parish for its poor. Money was to come from a voluntary "poor fund." Reformed multiple times over the ensuing years, the poor laws eventually relied on taxes for funding. They also delineated separate categories of poor for differential treatment, with some deemed deserving of aid and others not.

The population principles set forth by Malthus can be compared with what historians now know about population trends of that period. Your reading by Dean provides background on the population changes of the time and considers competing theories on possible causes and consequences of those changes. From the Dean reading, one might conclude that models of population growth require much more complexity than Malthus' framework allows. Ask yourself whether that is in fact the case or whether, instead, Malthus essentially succeeded in distilling a complex phenomenon down to its fundamental components.

The remaining readings for this week bring the population debates up to date. We see modern-day versions of the Malthusian perspective in sustainability discussions, in development debates, and even in recent controversies over welfare reform. The reading by Joseph Persky analyzes the 1996 U.S. welfare reform in light of its roots in Malthusian and Classical Economics. Meanwhile, Daily and Ehrlich, surpassing Malthus in terms of gloomy predictions, raise troubling questions about the earth's carrying capacity. The reading by

Tierney describes the debate between modern-day Malthusians and "Cornucopians" and introduces economist Julian Simon who questions the Ehrlich doomsday scenarios. Simon's arguments hinge on his unshakable faith in the ability of prices and profits to create as-yet-unimagined solutions to resource problems. In his Cato publication "Population Growth, Economic Growth and Foreign Aid," Simon takes us into the economic-development debates on overpopulation. Nafis Sadik provides an example of the "populationists" being criticized by Simon, while the excerpt from Lebergott's book considers the deeper welfare implications of births and deaths. In sum, you should have plenty to choose from in structuring this week's essay!

Assignment: Please comment on the following statement.

The analysis of population developed by Thomas Malthus does not hold any relevance for modern-day issues of economic development, political economy or environmental sustainability. Current theorists who hark back to Malthus have misunderstood his analysis and failed to learn the lessons that should emerge from studying his thought.

As part of your essay, carefully explain Malthus' population theory. As usual, be sure to demonstrate mastery of the assigned readings. The following questions may help you focus your thoughts before you begin to organize your essay.

1. How do geometric and arithmetic progression enter into the "Principles of Population" according to Malthus?
2. Why do differences in the quality of land matter?
3. What does Malthus mean by preventive checks and positive checks, and what role do they play in his theory.
4. When Malthus speaks of "oscillations," what does he mean?
5. How do wage and price adjustments figure into his analysis?
6. What are the impacts of the English poor laws according to Malthus?
7. In the views expressed by Malthus, are poverty and inequality necessarily negative phenomena?
8. How do Godwin, Condorcet and Malthus compare in their views of the malleability of human nature and the role of man-made institutions?
9. Do births enrich us or impoverish us?

Essay Style: Please see the assignment page for Week I to review the requirements for essay style and mechanics.

Week 4

On Value and Price

Early Classical Theory: Adam Smith, *The Wealth of Nations*, Ch. 11 Malthus, "[Observations on the Effects of the Corn Laws](#)" & "[The Nature of Rent](#)" Malthus, *Principles of Political Economy*

Book I, Ch. 1, section II, p. 34-49, "**On Productive Labour**" This is also at *Electronic Reserve* Book I, Ch. III, section VIII, p. 194-206, "**On the strict and necessary Connection of the Interests of the Landlord and of the State**" Book I, Ch. III, section IX, p. 207-217, "**General Remarks on the Surplus Produce of the Land**" Book II, Ch. I, section III, p. 314-330, "**Of Accumulation, or the Saving from Revenue to Add to Capital, considered as a stimulus to the Increase of Wealth.**" David Ricardo, *The Principles of Political Economy and Taxation*, Ch 1-6, 20, 32

The Utilitarians:

Jeremy Bentham, *Intro to the Principles of Morals & Legislation*, Chs. I-IV and *Economic Writings, Vol. 3, pp. 120-123 (on frugality & prices), 257-258 (on government), 440-443 (on inequality)* *Electronic Reserve* J. S. Mill, Ch. 2, "[What Utilitarianism Is](#)" & *Principles of Political Economy*, Last 4 paragraphs of "Preliminary Remarks" & Book II, Ch. 1, "[Of Property](#)" Thompson, *Labour Rewarded*, CSS Library, selected pages. E. K. Hunt, "[Utilitarianism & the Labor Theory of Value](#)" Peter Davis, "[Cooperatives, Labor & the State: The English Labor Economists](#)"

Background:

Early Classical Theory on Value:

In this week, we undertake an in-depth exploration of the concept of "value" and theory of price determination. As you read the sections of Smith, Malthus, and Ricardo, please focus on their individual efforts to explain rent, profit, and wages. Compare their theories on the source of "value" and on the manner in which value relates to price.

We will see that the Classical theorists, in analyzing value, factor payments and price determination, provide some false starts as well as some enduring principles for the subsequent development of neoclassical economics. While the Neoclassical theorists find

Smith's theory of value wanting, the Ricardian theory of rent is of considerable importance for future developments in the field. The beginnings of supply and demand analysis are also here, although not with the sophistication provided later by marginal analysis associated with neoclassical theory. These writings, then, set the stage for the development of the neoclassical school of thought. At the same time, the seeds of radical and Marxian analysis are visible in these texts. The use of the labor theory of value and the emphasis on conflicting class interests prepares the way for economic theories that take a more critical view of the emerging system of production. In the coming weeks, we will explore both threads that emerge from this body of thought.

The Utilitarians on Value

Jeremy Bentham (1748-1832) viewed human behavior as a rational and calculated seeking of pleasure and avoidance of pain. In 1789, he published An Introduction to the Principles of Morals and Legislation, which, in many ways, provided the philosophical basis for neoclassical economics. In it, he developed the "principle of utility" stating "all human activity springs from the desire to maximize pleasure." With this view, he moved away from the labor theory of value toward a utility theory of value. He hoped to obtain a scientific, mathematical explanation of exchange value derived from a commodity's use value. In his later years, Bentham was not solely a theorist but also an advocate of significant social reform. The assigned sections from Jeremy Bentham's Economic Writings, assembled by W. Stark in 1954, provide a brief look at Bentham's later views. Both his early and late phases provided the foundations for the Utilitarian school and influenced, among others, William Thompson and John Stuart Mill.

William Thompson (1775-1833), like Bentham, was a reformer, but with a more radical agenda. He was influenced by Robert Owen (1771-1858), the founder of the Owenite cooperative movement. Owenites advocated creation of self-governing, industrial and agricultural communities based on a sharing of the means of production and the elimination of private property. Thompson combined his commitment to the Benthamite utilitarian theory with a belief in the labor theory of value; only labor created value and wealth in his view. Rejecting the economic insecurity that he believed inherent in private ownership of capital, Thompson argued that workers should own their own capital and the materials necessary for production. He also argued that competitive markets should be allowed to function freed from the restrictions of monopoly and government protection of special interests. His perspective can be seen as an early version of egalitarian, competitive market socialism. At the same time, Thompson worried about the corrupting incentives that he felt were inherent in the principle of individual competition. These negative consequences, he believed, would emerge even under market socialism. In particular, he was concerned about the oppression of women. This subjugation, he argued, would be relieved only by rejection of traditional independent families and creation of cooperative arrangements to prepare food and raise children.

John Stuart Mill (1806-1873), son of the political economist James Mill (1773-1836), produced one of the leading books on economic theory of the mid 19th century. In it, he tried to pay tribute to both Bentham and Ricardo by promoting a labor theory of value combined with utilitarianism. However, he qualified both theories so extensively that the final product

was uniquely his own. In contrast to Frederic Bastiat (1801-1850), a contemporary who extended Smith's and Bentham's theory to an unqualified defense of private property, profit and the existing distribution of wealth, Mill took a more moderate stance. While Bastiat's writings prepared the way for the Austrian and Chicago schools of strict laissez-faire capitalism, Mill set the stage for more reformist elements sympathetic to redistributive policies and government intervention. Mill argued for theory to recognize the separation of the laws of production from the laws of distribution. Although the laws of production were unchangeable, in his view, the pattern of distribution was the result of man-made institutions which could, therefore, be altered.

Assignment: For this week's essay comment on the following statement:

Reflect on the process by which "value" is explained by the various thinkers in the early Classical school of economics. Then consider the manner in which prices and value are explained by the various Utilitarian thinkers. It seems that the various perspectives on how value is created and the various views on how prices, wages, rents and profits are determined would have implications for the appropriateness of redistributing income.

It also seems that these views would naturally lend themselves to different views on whether unfettered markets entail a harmonizing of interests or a conflict of classes. This dichotomy is, in fact, what we tend to observe when we read Smith, Ricardo, and Malthus in contrast to Betham, Mill, and Thompson.

In writing your essay, be sure to identify areas of agreement and areas of discord among the three authors. As always, be sure to demonstrate mastery of the assigned readings. The following questions may help you focus your thoughts before you begin to organize your essay.

Focus Questions on Early Classical Theories of Value:

1. How is value created?
2. What is the distinction between "use value" and "exchange value?"
3. Where does "surplus" come from?
4. How is price determined? What is the difference between "natural price" and "market price?"
5. What is meant by the "necessary" components of costs of production?
6. How do the authors compare in their interpretations of rent?
7. How does rent emerge and what does it represent? How would you summarize the essential elements in the Ricardian theory of rent?

8. In the Ricardian theory of rent, what is the importance of the least productive plot brought into production? What is the importance of equalization of returns to capital?
9. How do the authors compare in their evaluations of the owners of capital and the profit collected by the owners of capital?
10. Does the evaluation of the land-holding class differ across the three authors?
11. Are the three authors in agreement on the labor theory of value and on the necessary components of the costs of production?
12. In viewing the free market mechanism as integrative or divisive, do views of property rights and the laws of ownership play a role?

Focus Questions Utilitarian Theories of Value and Policy:

1. What reformist themes, if any, do you see in the Utilitarian school? If they exist, do these reformist themes have a theoretical basis? If so, what is it?
2. Are there anti-reformist elements in the Utilitarian approach? If they exist, what are they and what is their theoretical basis.
3. What is Bentham's view of government? Mill's? Thompson's? Do they favor a laissez-faire approach or do they take a positive view of government intervention?
4. What role does diminishing marginal utility play in the analysis? What policy is implied by this concept according to Bentham?
5. What role does individualistic analysis play in Utilitarian theory? How does this mesh with the view of government?

Week 5

Invisible Hand or Invisible Chains - Efficiency or Exploitation

Secondary Source:

Barber, *Chapter 5* Include the preface to chapter 5 and the epilogue to chapter 5

Marx: Karl Marx, *Capital*, Volume I, Chapter 10 (sections 1-4 and section 6), *Capital*, Volume I, Chapters 26-32, *Capital*, Vol I, Ch 1 (sect 1, 2); Ch 4, 6, 8, 9, 12,13, 14 (sect 1,2, 5); Ch 15 (sec 1-5, 9); Ch 16-18, 22, 23; Ch 25 (sect1-4).

Background:

I recommend that you start the Marx material by readings Barber, Chapter 5 for an overview. In addition, you might want to consult other secondary sources to get a variety of views and interpretations. However, when you write your essay, you should use your own words and select your own sections of the text to cite.

Your readings this week are mostly from Volume I of Capital written by Karl Marx (1818-1883) and published in 1867. Marx built upon the foundations of the Classical theorists while mounting an acerbic attack on their general conclusions. It is difficult to get the flavor of Marx without reading a good portion of his material. For that reason, the reading assignment for this week is rather hefty. Start early! Here is the order in which I suggest you tackle the assigned pages of Capital.

First read Marx's description of the battle over the length of the work day along with his portrayal of child labor and overall working conditions. (Volume I, Chapter 10, sections 1-4 and section 6). Ask yourself what is the importance of this chapter in Marx's analysis. You may wish to return to that question after completing the more technical sections of this week's readings.

Next, I suggest that you read Marx's chapters on "The So-Called Primitive Accumulation." (Volume I, Chapters 26-32) This shows Marx as historian. The history, however, has a particular importance. It serves to illustrate the forces that spawned the capitalist system that will, in turn, lead to its demise. Feudalism gives rise to the forces that turn against it, just as Capitalism gives rise to the forces that bring about its own destruction. As you read these chapters, think about how Marx, the historian, and Marx, the economist, inform and complement each other. Again, you may wish to return to that thought after completing the more technical sections of Capital.

Finally, tackle Marx the economist and the technical details of his economic analysis. Do not simply rely on secondary sources, although they will prove helpful. Instead, read the assigned sections carefully and draw from the original source when writing your essay. The details of Marx's economic structure can be gleaned from the final set of assigned chapters: Volume I, Chapter 1 (sections 1 and 2); Chapters 4, 6, 8, 9, 12,13, 14 (sections 1,2, and 5); Chapters 15 (sections 1-5, 9); Chapters 16-18, 22, 23; Chapter 25 (section 1-4).

Keep yours eyes open for the entertaining bits amidst the turgid prose. For example, if you read carefully, you will find the following remark buried within less engaging material. "If we may take an example from outside the sphere of production of material objects, a schoolmaster is a productive labourer when, in addition to belabouring the heads of his scholars, he works like a horse to enrich the school proprietor. That the latter has laid out his capital in a teaching factory, instead of in a sausage factory, does not alter the relation."

Based on your readings for this week, explain the essential features of Marx's economic argument in Capital. Point out similarities with the other economists that you have studied so far in the tutorial. Then comment on the following statement: "Marx is basically obsolete and unimportant for modern day analysis. This is true whether we look at his economic analysis, his analysis of historical change, or his analysis of class."

Guidelines: Use your own words. Define all technical terms. In advance of writing your essay, be sure to review definitions of the following concepts and their importance in Marx's analysis. Use **value, exchange value, socially necessary labor time, C-M-C and M-C-M', labor power, surplus value, exchange value of labor power, necessary labor time, surplus labor time, constant capital, variable capital, rate of surplus value, rate of profit, primitive accumulation, crisis and stagnation.** As always, be sure to demonstrate mastery of the assigned readings.

Week 6

Marginalism and The Birth of Neoclassical Economics: What is old? What is new?

Neoclassical Theory: The Marginalist Revolution

W. Stanley Jevons, *The Theory of Political Economy*. (1871) Preface and Chapters II-IV
Carl Menger, *Principles of Economics* (1871) Chapter 2
George J. Stigler, "Development of Utility Theory" **ONLY** Section 1 of Part I (1950)

Neoclassical Theory: Welfare Economics

George J. Stigler, "The Development of Utility Theory" *Part I (Sections II-IV)* (1950)
J. B. Clark, *The Distribution of Wealth* Preface & Chs. 12 & 13 (1899)
Pareto, *Manual of Political Econ.* Ch.3, para.14-37, 116; Ch. 6, para.32-37 **CSS Library** (1906)
A. C. Pigou, *Economics of Welfare*, Part I: Chapter VIII (1920)
Lionel Robbins, "Interpersonal Comparisons of Utility: A Comment" (1938)
Nicholas Kaldor, "Welfare Propositions of Economics & Interpersonal Comparisons" (1939)
Hal R. Varian, *Intermediate Microeconomics: Modern Approach* Ch. 30, 32 **CSS Library**

Background:

Where Marx saw increasing concentration of capital, a series of more conventional economists found Smith's atomistic view of the market and Bentham's individualistic utility framework more appealing and worthy of further elaboration. Three economists in particular, in the early 1870s, published texts which are often credited with giving birth to modern-day neoclassical theory. Working separately, but publishing in rapid succession, their works established the school of economics associated with Marginalism, the decision-making process based on marginal analysis.

In his text, Theory of Political Economy, published in 1871, William Stanley Jevons (1845-1882), used Bentham's utility theory as a starting point and developed a comprehensive utility theory of value. In the same year, Carl Menger (1840-1921) distinguished between total utility and marginal utility and linked marginal utility decision-making to price

determination. Soon after, Leon Walras (1834-1910) published Elements of Pure Economics (1874) in which he introduced the concept of general equilibrium analysis, a fundamental component of modern-day economic thought. In fact, the Marginalist school emerged from a broad range of theorists all moving toward a view of value and behavior based on incremental changes in utility.

Building on this Marginalist framework while harking back to Smith and Ricardo, Alfred Marshal (1842-1924) developed his own foundational view of economic theory in his Principles of Economics (1890) which eventually replaced Mill's Principles as the major English textbook in economics classrooms in this period. He combined the emerging Marginalist understanding of market mechanisms with a reformist perspective more reminiscent of John Stuart Mill. At the same time, he is largely credited with deriving the most successful link between demand analysis and the concept of diminishing marginal utility. Despite his reformist sympathies, Marshal was a believer in incremental reforms. He had faith in "economic chivalry" on the part of the rich for ridding the market of "the worst evils of poverty"

J. B. Clark (1847-1938) extended the marginal utility analysis to a theory of income distribution. While Marshal's theory relied on fixed input ratios, Clark recognized the importance of variable input ratios and the associated payments to the factors of production. Labor received its "value of marginal product" (output price x marginal product of labor) and capital earned a similar payment (output price x marginal product of capital). After all payments to factors of production were made, the expenditure on the total product was accounted for and no Marxian exploitative surplus needed to be explained.

The work of the Marginalists, sometimes referred to as "the Marginalist revolution" in economics, laid the groundwork for the developing field of "welfare economics" represented in your readings below by the readings from Vilfredo Pareto (1848-1923), Francis Edgeworth (1845-1926), A.C. Pigou (1877-1959), and Lionel Robbins (1898-1984). Pareto's work defined an optimal point as one in which no person could be made better off without another suffering a decrease in utility. Edgeworth is best known in modern-day textbooks for his diagram illustrating the locus of such optimal points called "the contract curve." The specific optimum chosen depends on the initial distribution of endowments along with the shape of individual preferences in the face of relative prices. Pigou suggests that distributional issues may be addressed by the assumption of diminishing marginal utility of income. This view, however, violates the condition prohibiting interpersonal comparisons of utility. These debates are discussed in your readings by Robbins and Nicholas Kaldor (1908-1986).

The complex nature of the welfarist theories and debates makes secondary sources particularly helpful for this week of readings. Feel free, as always, to consult outside sources. I have provided some options for you. They include the remainder of the Stiglitz article, a modern textbook view of welfare economics from Hal Varian (Chapters 30 & 32) and the readings by Sen and Atkinson. Sen offers a critique of the standard view of "economic man" embodied in the welfare literature. Atkinson provides another overview of welfare economics along with a review of both Sen's critique and Sen's alternative to utility theory called "capability theory."

Assignment: Comment on the following statement:

When we speak of the "Marginalist revolution" and "welfare economics," the two words, "revolution" and "welfare" are both misnomers. In fact, Marginalism is little more than old-school utilitarianism embellished with a large doses of mathematics, and "welfare economics," because of its restrictive design, cannot really tell us anything about the nature of social welfare.

Guidelines: Remember to use your own words. Define all technical terms. As part of your essay, you would be well advised to touch upon at least some of the following terms: cardinal utility, ordinal utility, total utility, marginal utility, indifference curves, diminishing marginal utility, Edgeworth box, contract curve, general equilibrium, Pareto optimal. As always, be sure to demonstrate mastery of the assigned readings.

Feel free to consult outside sources on this week's material. Here are some to start with:

George J. Stigler, "The Development of Utility Theory" ***Part I*** (1950) gives an overview of utility theory.

Amartya Sen. "Rational Fools" (1977) offers a critique of the standard view of "economic man."

Anthony Atkinson "The Contributions of Amartya Sen to Welfare Economics" (1999) provides more recent overview of welfare economics, along with Sen's critiques and his alternative to utility theory called "capability theory"

Alexander Gray & A.E. Thompson The Development of Economic Doctrine, 2nd ed. pp. 314-366 offers an introduction the Austrian-school origins of marginalist analysis.

Hal Varian, Intermediate Microeconomics: A Modern Approach, Ch. 30 "Exchange" and Ch. 32 "Welfare" is a modern-day textbook treatment of welfare economics including the Edgeworth box and Pareto Equilibrium.

Week 7

The Nature of Capitalism - Part A:

Is Free Market Capitalism Inherently Unstable?

Capitalism and Theories of Macroeconomic Crises

Essential Reading for the Essay John Maynard Keynes, *The General Theory* Chapters 1-3, 8-14, 17-19, 21, 22, 23, 24 Joseph Schumpeter, "*Review of The General Theory; and Capitalism, Socialism, and*

Democracy (1942) Ch. 6-8, 13,14 Required Text (If time permits, also read Ch. 1-4) J. R. Hicks, "*Mr. Keynes' Theory of Employment*" Jacob Viner, "*Mr. Keynes on the Causes of Unemployment*" James Tobin, *Price Flexibility* and "*An Overview of the General Theory*," **CSS Library**

Modern-Day Relevance of the Macroeconomic Debates "Deflation Danger: Of Debt, Deflation & Denial" (Oct 12, 2002) *Electronic Reserve* Floyd Norris *High & Low Finance: Determining Who Rides the Lifeboat* Stiglitz *FreeFall*, "Preface" and pp. 1-76 **CSS Library** John Cassidy, After the Blowup **CSS Library**

Radical Critiques from the Right on Macroeconomic Stability and Growth

Debate on Monetarism: Arthur Burns, "Money Supply in the Conduct of Monetary Policy," and Friedman, "Response to Burns" **CSS Library** Debate on Supply-Side Economics: "Guide to Supply-Side Economics," and Herbert Stein, Some Supply-Side Propositions **CSS Library**

Background:

This week we examine three approaches to understanding macroeconomic instability, that of Joseph Schumpeter (1883-1950), that of John Maynard Keynes (1883-1946) and that of Milton Friedman (1912-2006). In a unique manner, Schumpeter's view, while largely influenced by the Austrian tradition in economic thought, also reflects the influence of Marx. Hoping to capture the attention of those familiar with Marx's work, Schumpeter uses a similar approach and similar concepts to present a very non-Marxist, non-Keynesian view of capitalist crises. Schumpeter, like Keynes, sees macroeconomic instability as endemic to capitalist growth. However, where Keynes sees these crises as problems requiring government action, Schumpeter views the crises as healthy aspects of a dynamic capitalist system.

The General Theory, by John Maynard Keynes, revolutionized the field of economics and gave birth to modern-day macroeconomic analysis. While Keynes' significance is beyond question, understanding Keynesian economics is made difficult by the fact that we often see three very different faces of Keynes: the one speaking to us from the General Theory, the one

pieced together by the "neoclassical-Keynesian synthesis" promoted by J. R. Hicks (1904-1989), and the one less compatible with neoclassical analysis reflected in your readings by Nobel-prize winner James Tobin (1918-2002). Although the Hicksian approach is the model that entered the text books, it is that very same approach that was labeled "Bastardized Keynesianism" by economist Joan Robinson, a well-known contemporary of Keynes

I have added several readings illustrating the modern-day relevance of the macroeconomic debates. After finishing the essential readings for the essay, these are the selections that rank second in importance.

Finally, if you have time, the last readings introduce some radical critiques from the right on macroeconomic stability and growth. You will read a debate on inflation illustrating the monetarist perspective of Milton Friedman along with a more mainstream view of inflation from Arthur Burns. You will also read a debate on supply-side economics with the minority, supply-side view expressed in the Business Week article and a skeptical evaluation offered by mainstream, conservative economist Herbert Stein.

Assignment: For this week's essay, please comment on the following quote:

"Free-market capitalism is inherently unstable, but this instability arises from factors that cannot be effectively countered by macroeconomic fiscal and monetary policies."

In writing your essay, make sure that you explain the Keynesian, Schumpeterian and Monetarist frameworks sufficiently for the purposes of your argument. As always, demonstrate mastery of the assigned readings. The following questions may help you focus your thoughts before you begin to organize your essay.

1. In the various readings, are the hypothesized origins of the instability the same?
2. Do all of the readings put equal weight on short-term and long-term analysis?
3. Are the policy prescriptions drastically different?
4. What are the impacts of entrepreneurship and investment behavior in each of the theories?
5. Are any of the approaches more in line with the Classical school of economic analysis?
6. Are any of the approaches more compatible with modern-day neoclassical analysis?
7. Can you identify the differences among the various interpretations of Keynesian economics.

Week 8

The Nature of Capitalism – Part B:

Are Consumers Sovereign Under Free-Market Capitalism?

Competing Views of Consumer Sovereignty: Thorstein Veblen, *The Theory of the Leisure Class* (1899), Chs. 1-4, 7, 14 Hayek, "The Use of Knowledge in Society" AER V. 35 p. 519 (1945) PDF sent by email Galbraith "Myth of Consumer Sovereignty" (1958) & "Countervailing Power" (1952) **CSS Library** Tibor Scitovsky, "Income and Happiness" (1976) **CSS Library** Amartya Sen "*Rational Fools*" (1977) Friedman, Free to Choose, "Who Protects the Consumer," Go to **LINK** and click on "Volume 7" (1980) Lebergott, "Consumers+Critics; Happiness+Welfare; Consumer Choice: Advertising" (1993) **CSS Library** Anthony Atkinson "*Contributions of Amartya Sen to Welfare Economics*" (1999) Juliet Schor, Interview on Born to Buy. Go to the following **LINK** and click on "Listen" (2004) Amartya Sen "The Uses and Abuses of Adam Smith" Go to **LINK** and **start at minute 3:15** (2010)

Background:

According to the concept of consumer sovereignty, the market delivers what consumers want. But how are those wants themselves determined and, once they are satisfied, are individuals happier? Does economic growth translate into more satisfied lives? The readings in this week raise questions about what the capitalist system can be expected to deliver. Thorstein Veblen (1857-1929) sees the emergence of a leisure class, but not one that is particularly attractive. In fact, capitalism, by promoting exploit and honoring plunder, fuels a competition of conspicuous consumption. The picture that emerges is one of supercilious waste.

John Kenneth Galbraith (1908-2006) is known for his "institutional"

approach to economic analysis. He weighs in on the concept of consumer sovereignty and finds it wanting. In another classic Galbraith piece, Galbraith argues that the performance of modern-day capitalism needs to be understood as a process of continuing tension among distinct countervailing powers. One of those countervailing powers comes from union activity. Although neoclassical theory elevates the consumer to a sovereign power, it has much less to say about the satisfaction of the individual-as-worker. Yet the typical individual is both consumer and producer. In fact, many consumers spend more than half of their adult lives at work. As such, the circumstances of the consumer and the conditions of the worker might deserve equal importance in the economic analysis of well being.

Tibor Scitovsky (1910-2002) investigates the supposed link between higher income and increased happiness, raising serious questions about the impact of income on contentment with life. Meanwhile, Stanley Lebergott (1918-2009) harks back to a more traditional faith in free market capitalism. Lebergott claims that competitive-market responsiveness to consumer choice serves as the basis for the most favorable outcomes. A very different view comes from Nobel-award winner Amartya Sen. In "Rational Fools: A Critique of the Behavioral Foundations of Economic Theory," Sen offers a penetrating critique of the standard view of "economic man" embodied in neoclassical analysis. Anthony B. Atkinson provides an overview of Sen's critique and an introduction to Sen's alternative to utility analysis, an approach called "capability theory." Sen's capability theory suggests a distinctly new perspective on issues of economic development and well-being. Behind the capability approach is a definition of freedom that is quite opposed to that put forth by the Chicago school of economics and laissez-faire philosophy.

Assignment: For this week's essay, please comment on the following statement.

"Modern-day capitalism is best characterized by the supreme rule of the consumer. This has the happy result of encouraging the production of goods most relevant for satisfying individual wants and promoting personal happiness. We need only look at the improvement in comforts available to humankind in general and to the U.S. population in particular in order to convince ourselves of the heightened living standards that this consumer sovereignty makes possible."