

History of Economic Thought I

I. Introduction:

Economics and Its History

School of Political Science and Economics

Waseda University

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Oct. 9, 2024

Evaluation

- In-person examinations unless otherwise noted.
- Three times during the course, 30%, 30% and 40% each.
- 1st: November 6 (30%)
- 2nd: December 4 (30%)
- 3rd and final: January 22, 2025 (40%)

Important Caveats

- 1. Please respect the usual academic code of conduct.
 - No plagiarism!
- 2. There is no make-up.
- 3. If you have questions, better to ask me in the classroom.

Key Questions for Today's Class

- 1. What is economics?
- 2. Why do we study economics, the history of economic thought?
- 3. What do we study in this course?

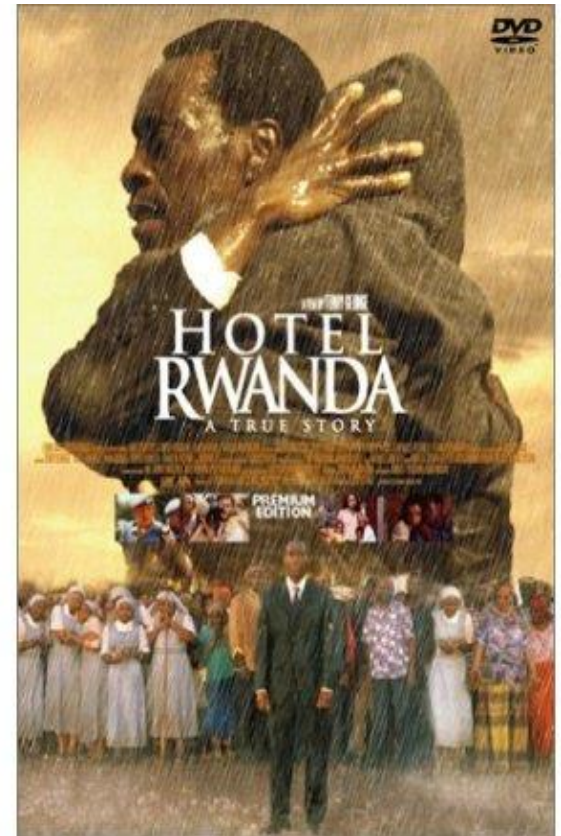
I . What is Economics?

- What is the economy? Tentative definition
 - People who live in a society make tangible goods and provide intangible services (production), receive income as rewards (distribution), and spend it (consumption)
- Has a lot to do with the everyday lives of the people
- But there are many “problems”

Has Progress Ended?

<https://www.nytimes.com/2001/12/16/weekinreview/conversations-long-view-50-years-covering-war-looking-for-peace-honoring-law.html>

- I have lost my faith in the idea of progress. I mean that in the sense that it was used at the beginning of the 20th century, that mankind is getting wiser and better and all -- now, how can you think that after Rwanda and Bosnia and a dozen other places where these horrors have occurred? (Anthony Lewis, Journalist)



Fruits of Wealth :

Great Achievements of the late 20th century

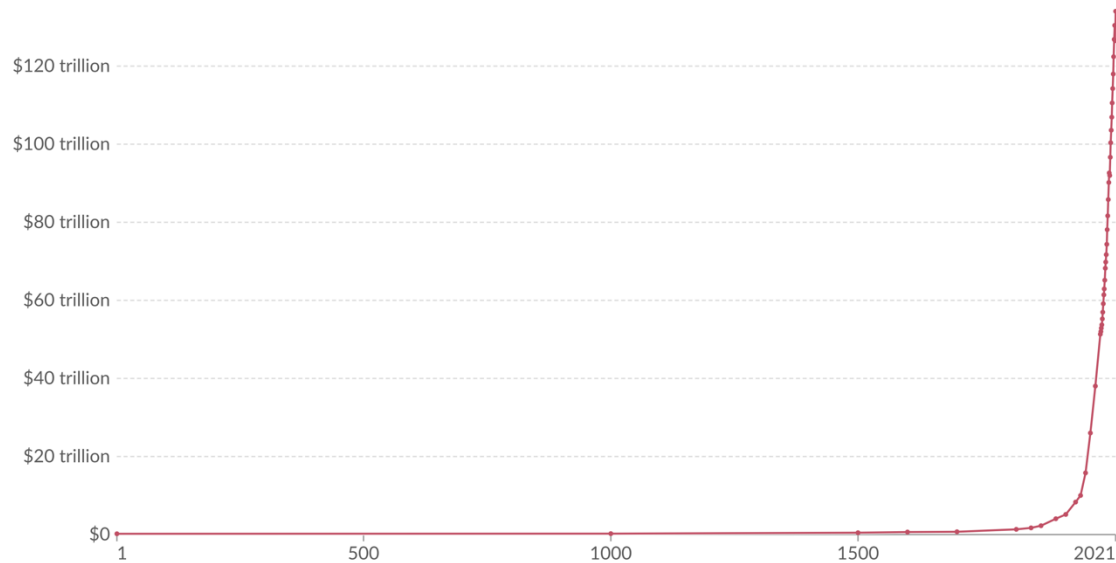
- Deaths by violence decreased
- People who suffer from totalitarianism, genocides, hunger, wars, and epidemics decreased
- Life expectancy in advanced economies (change from 1950 to 1999) : 66 to 78
- Developing countries : 44 to 64
- Per capita real Global GDP tripled
- Infant mortality decreased
- Literacy and education level increased
- The rise of NIES and BRICS

Global real GDP over the last two millennia

Global GDP over the long run

Our World
in Data

Total output of the world economy. These historical estimates of GDP are adjusted for inflation.



Data source: World Bank (2023); Maddison Project Database 2020 (Bolt and van Zanden, 2020); Maddison Database 2010 (Maddison, 2009)

Note: This data is expressed in international-\$¹ at 2017 prices.

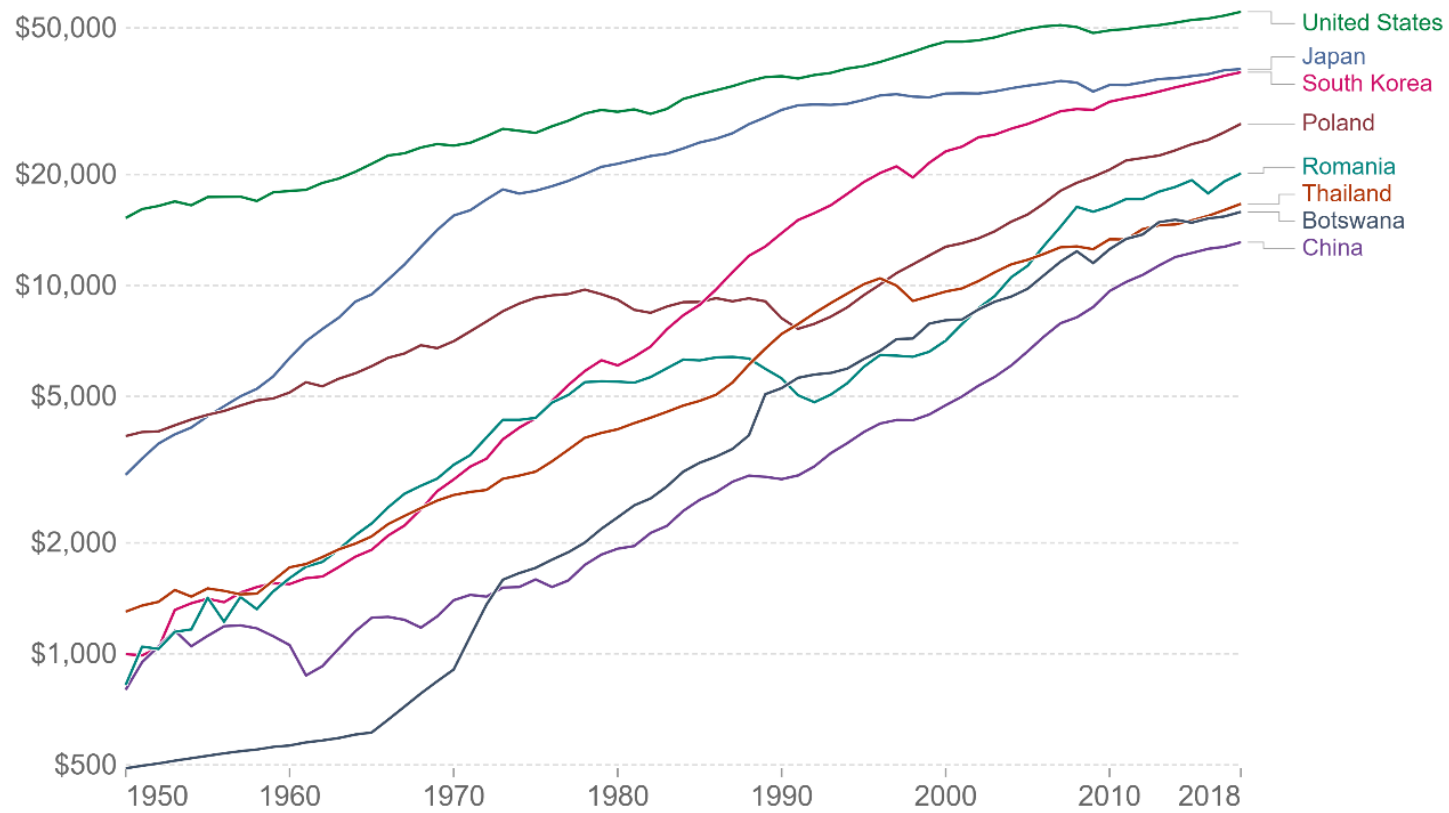
OurWorldInData.org/economic-growth | CC BY

1. International dollars: International dollars are a hypothetical currency that is used to make meaningful comparisons of monetary indicators of living standards. Figures expressed in international dollars are adjusted for inflation within countries over time, and for differences in the cost of living between countries. The goal of such adjustments is to provide a unit whose purchasing power is held fixed over time and across countries, such that one international dollar can buy the same quantity and quality of goods and services no matter where or when it is spent. Read more in our article: [What are Purchasing Power Parity adjustments and why do we need them?](#)

Economic Takeoffs

GDP per capita, 1950 to 2018

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.

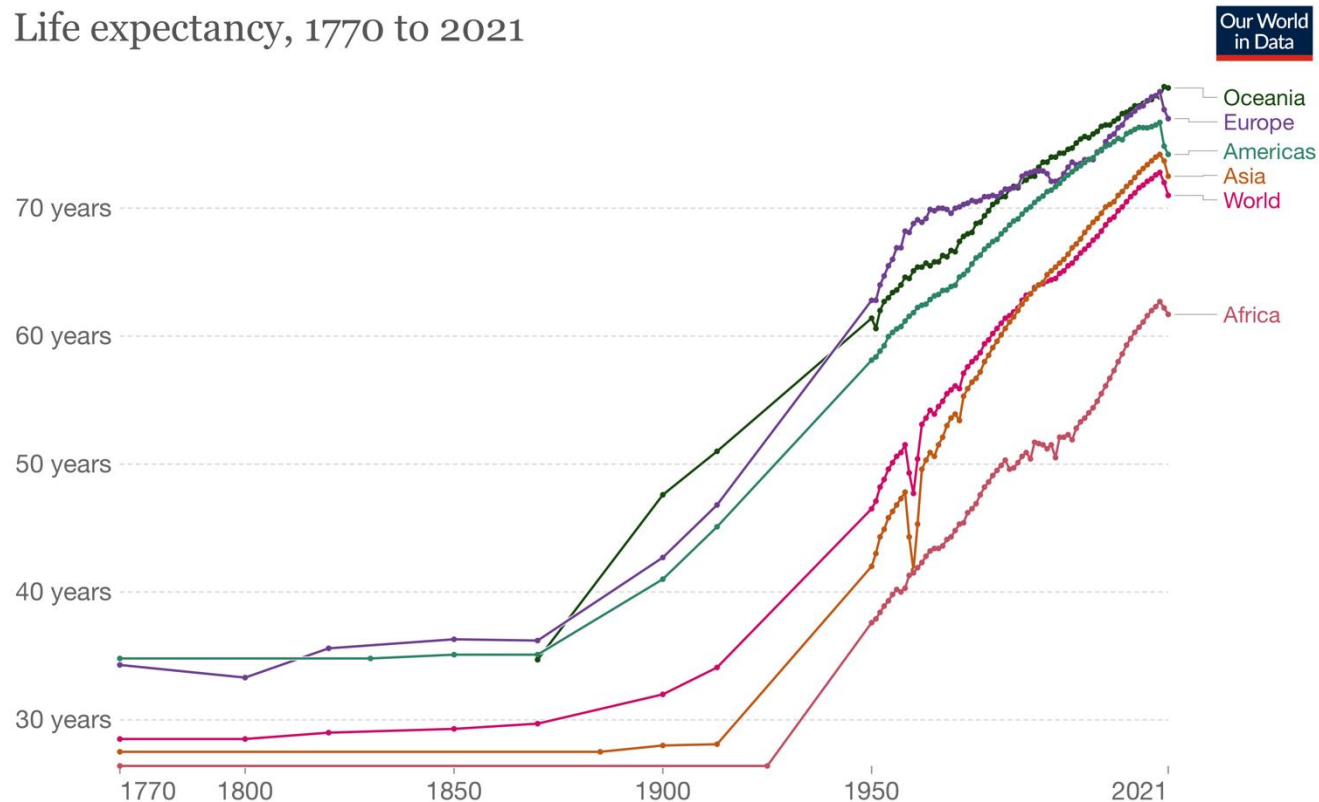


Source: Maddison Project Database 2020 (Bolt and van Zanden, 2020)

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People Live Longer

Life expectancy, 1770 to 2021



Source: UN WPP (2022); Zijdemann et al. (2015); Riley (2005)

OurWorldInData.org/life-expectancy • CC BY

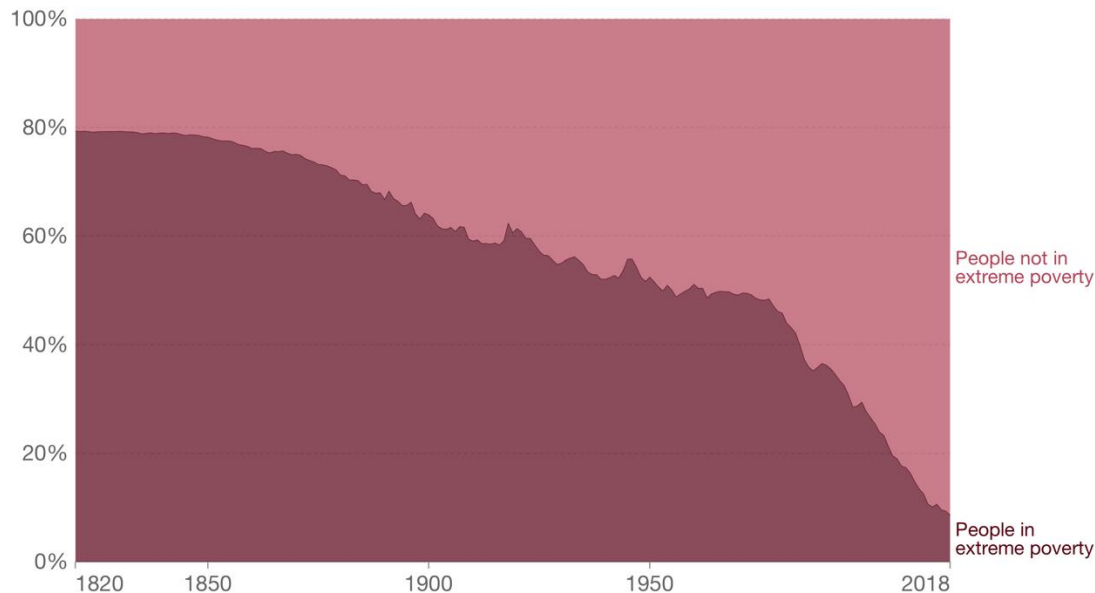
Note: Shown is the 'period life expectancy'. This is the average number of years a newborn would live if age-specific mortality rates in the current year were to stay the same throughout its life.

Reduction of Poverty

Share of population living in extreme poverty, World, 1820 to 2018



Extreme poverty is defined as living below the International Poverty Line of \$1.90 per day. Data after 1981 relates to household income or expenditure surveys collated by the World Bank; before 1981 it is based on historical reconstructions of GDP per capita and inequality data.



Source: Moatsos (2021)

OurWorldInData.org/poverty • CC BY

Note: Data is measured in international-\$¹ at 2011 prices to account for inflation and differences in the cost of living between countries.

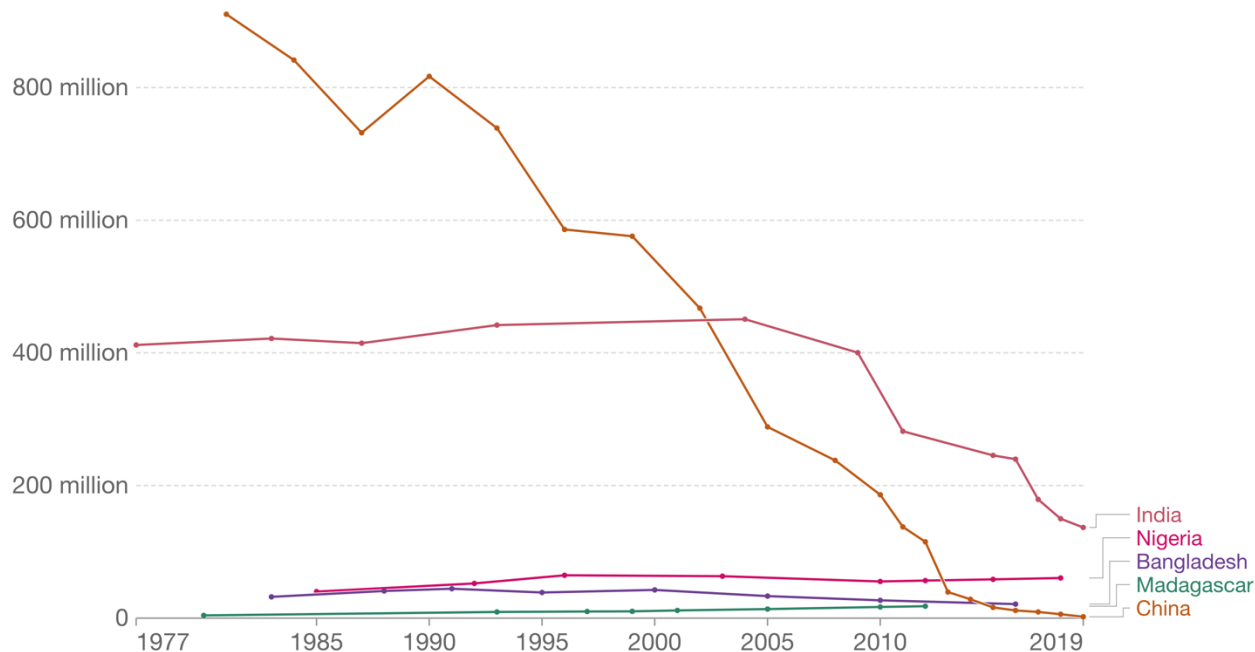
1. International dollars: International dollars are a hypothetical currency that is used to make meaningful comparisons of monetary indicators of living standards. Figures expressed in international dollars are adjusted for inflation within countries over time, and for differences in the cost of living between countries. The goal of such adjustments is to provide a unit whose purchasing power is held fixed over time and across countries, such that one international dollar can buy the same quantity and quality of goods and services no matter where or when it is spent. Read more in our article: [What are Purchasing Power Parity adjustments and why do we need them?](#)

Economic Growth in China and India → Reduced Poverty

Number of people living in extreme poverty, 1977 to 2019

Extreme poverty is defined as living below the International Poverty Line of \$2.15 per day. This data is adjusted for inflation and for differences in the cost of living between countries.

Our World
in Data



Source: World Bank Poverty and Inequality Platform (2022)

OurWorldInData.org/poverty • CC BY

Note: This data is expressed in international-\$¹ at 2017 prices. Depending on the country and year, it relates to income measured after taxes and benefits, or to consumption, per capita².

1. International dollars: International dollars are a hypothetical currency that is used to make meaningful comparisons of monetary indicators of living standards. Figures expressed in international dollars are adjusted for inflation within countries over time, and for differences in the cost of living between countries. The goal of such adjustments is to provide a unit whose purchasing power is held fixed over time and across countries, such that one international dollar can buy the same quantity and quality of goods and services no matter where or when it is spent. Read more in our article: What are Purchasing Power Parity adjustments and why do we need them?

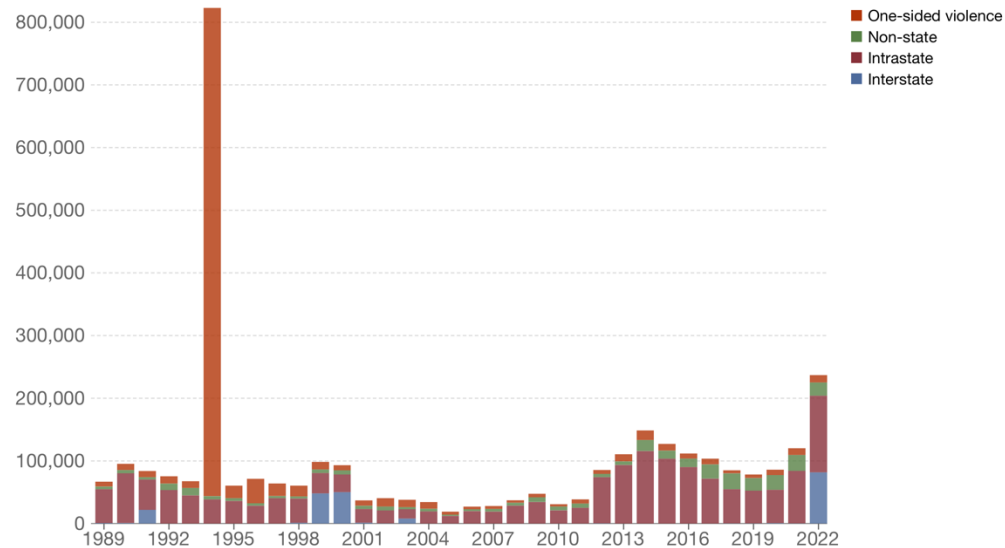
2. Per capita: 'Per capita' here means that each person (including children) is attributed an equal share of the total income received by all members of their household.

Deaths in conflicts seem to be increasing...

Deaths in armed conflicts by type, World

Interstate¹, intrastate², extrasystemic³, non-state⁴ conflicts, and one-sided violence⁵ that cause at least 25 deaths during a year. Deaths of combatants and civilians due to fighting.

Our World
in Data



Source: UCDP (2023)

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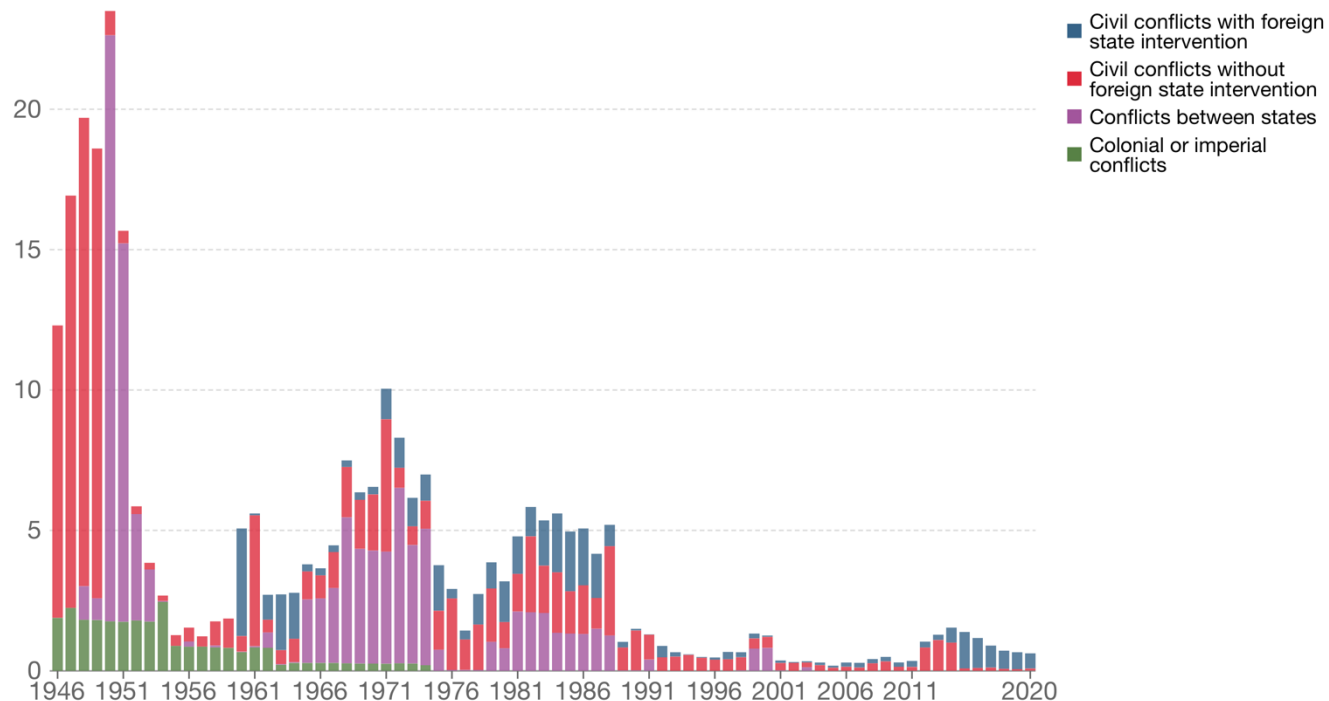
1. **Interstate conflict:** A conflict between states.
2. **Intrastate conflict:** A conflict between a state and a non-state armed group. Internationalized if a foreign state is involved, non-internationalized if not.
3. **Extrasystemic conflict:** A conflict between a state and a non-state armed group outside its territory.
4. **Non-state conflict:** A conflict between non-state armed groups.
5. **One-sided violence:** The use of armed force by a state or non-state armed group against civilians.

But death rates are decreasing

Death rate in state-based conflicts by conflict type, World, 1946 to 2020

Our World
in Data

Deaths per 100,000 people. Included are deaths of soldiers and civilians from fighting, excluded are deaths from disease or famine. State-based conflicts are between states, or a state and a non-state armed group.



Source: OWID based on PRIO and UCDP

OurWorldInData.org/war-and-peace • CC BY

Note: The sources' 'best' estimates are used, or - if unavailable - the mid-point between high and low estimates.

True, there are non-developing countries

- Especially African countries
- Paul Collier, “Bottom Billion”
- Why are they stuck at the bottom?
- Several “traps”
 - Internal conflicts
 - Natural resources
 - Landlocked
 - Governance

Economic Problem I : Why are there rich and poor countries?

- Why have the Western countries and Japan succeeded in economic development and others are also succeeding, but some countries are stagnating or even declining?



Another problem: the Global Financial Crisis and the Great Recession

- Financial Crisis...
 - Spread of subprime loans
 - Sept. 2008: bankruptcy of Lehman Brothers
- ...To Economic Crisis
- “once-in-a-century” Crisis
 - The Second Coming of the Great Depression?
 - U.S. recovered faster, Japan stagnated and the Euro area afterwards

Economic Problem II :

Why even rich countries experience boom and bust?

- The Great Depression
- The Great Inflation of the 1970s
- Japan's Great Stagnation
- The Great Recession
- Even rich countries fall into recession and depression

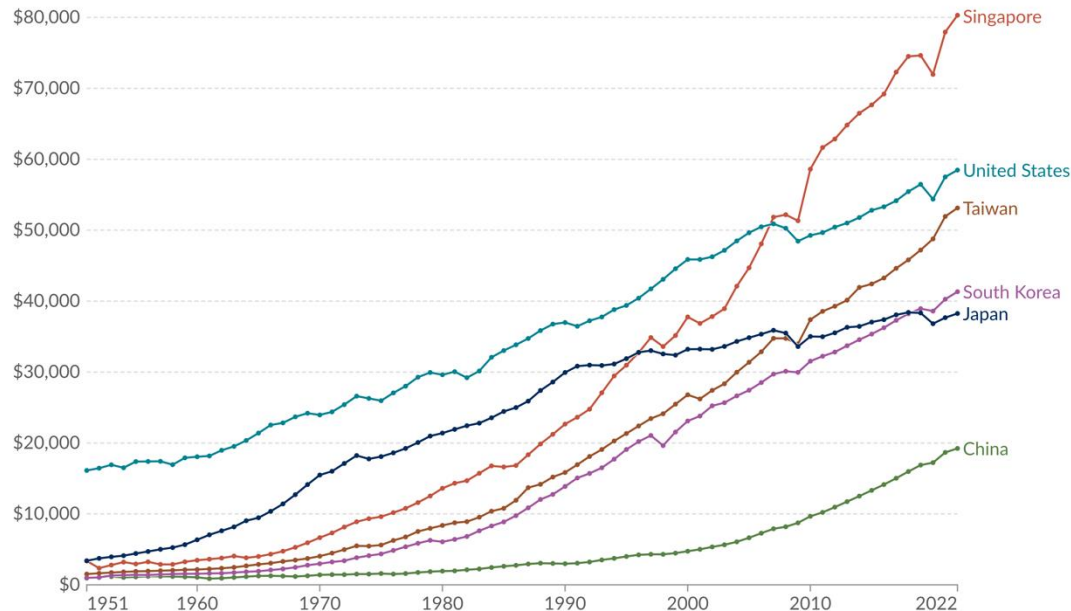


Japan's Great Stagnation: Low Economic Growth since the 1990s

GDP per capita, 1951 to 2022

This data is adjusted for inflation and for differences in the cost of living between countries.

Our World
in Data



Data source: Bolt and van Zanden - Maddison Project Database 2023

OurWorldinData.org/economic-growth | CC BY

Note: This data is expressed in international-\$¹ at 2011 prices.

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Would China Repeat the Same Mistakes of Japan?

- Fall in property prices: the burst of the “bubble”?
- Ballooning Non-performing loan: to what extent?
- Downward shift in economic growth rate
- Rise in youth unemployment rate (21.3% as of July 2023): Released stopped in August
- Chinese authorities have kept saying that they have learned from Japan’s mistakes...
- China specific problems

Financial Times, Oct.6, 2023

MyWaseda メール - WAKATABE Masazumi - Outlook The Exorcist and why demonic possession taps into our da... Lessons for China from Japan's lost decade | Financial Tim...

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Opinion **Japanese war on deflation** + Add to myFT

Lessons for China from Japan's lost decade

Beijing is confronting slowing growth, falling prices and rising youth unemployment. From Tokyo, this all looks familiar

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Feedback

Traders at the Tokyo Stock Exchange in 1990. The bursting of the asset price bubble led to years of deflation and stagnation © Gerhard Joren/LightRocket/Getty Images

New Stimulus, announced on Sept.27

Stock price reacts very positively

But in the longer-run



Reality, so far

Property prices still decreasing



Youth unemployment rate soars



What is Economics?

- Try to recognize economic “problems”
- Try to understand the “mechanism” of the economy
- Try to solve problems with knowledge

Economics as...

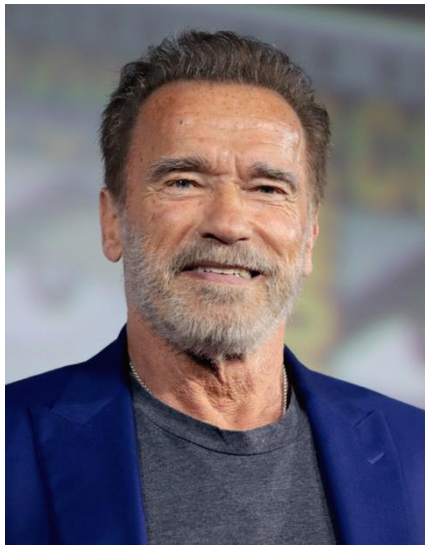
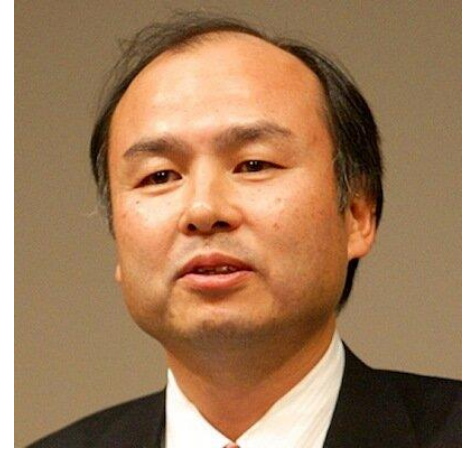
- Science; what kind of ?
 - Natural?
 - *Social*: human mind, and human constructions e.g., institutions, governance
 - Pure or applied Science?
- Technology
 - Applied Policy Science
- E.g. Inflation or deflation
- Economist as Scientist vs. Engineer (Mankiw 2006)

Is Economics “Useful”?

→ Yes

- 1. For an individual: Financial Literacy
- 2. When the Economy as a whole has problems, economics helps to understand them
- E.g. Recession
 - Would affect job market
 - An individual cannot do anything about it, except to adapt to it
 - But shouldn't *we* do something about it?

Some Famous Economics Graduates

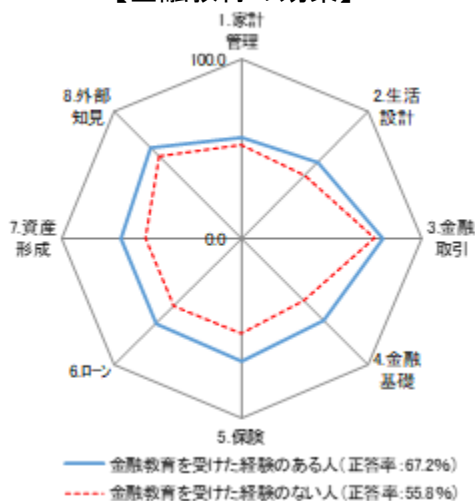


Financial Literacy→Better Financial Actions

金融教育の効果

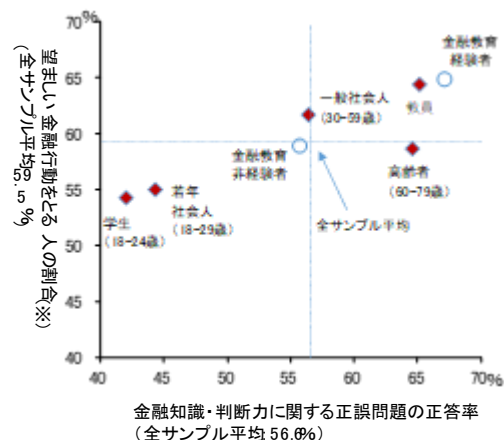
▽「金融教育を受けた経験のある人」は、そうでない人に比べ、「正しい金融知識・判断力」を持ち、「望ましい金融行動」をとる傾向がある。

【金融教育の効果】



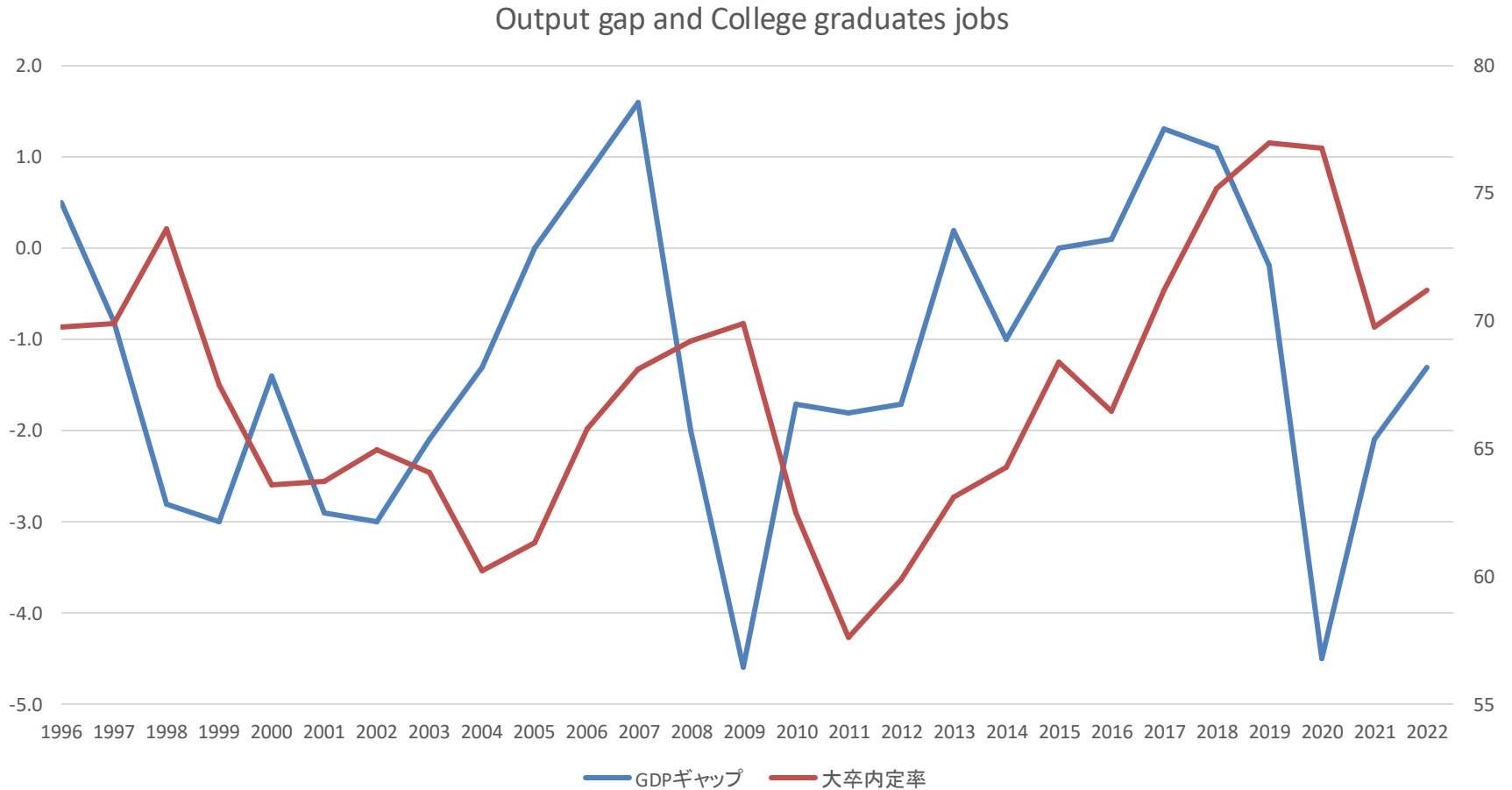
(出所) 金融広報中央委員会「金融リテラシー調査」(2019年)

【正答率と金融行動との関係】



※ 資産運用、借入れ、生保加入時に他の金融機関や商品と比較した人の割合。

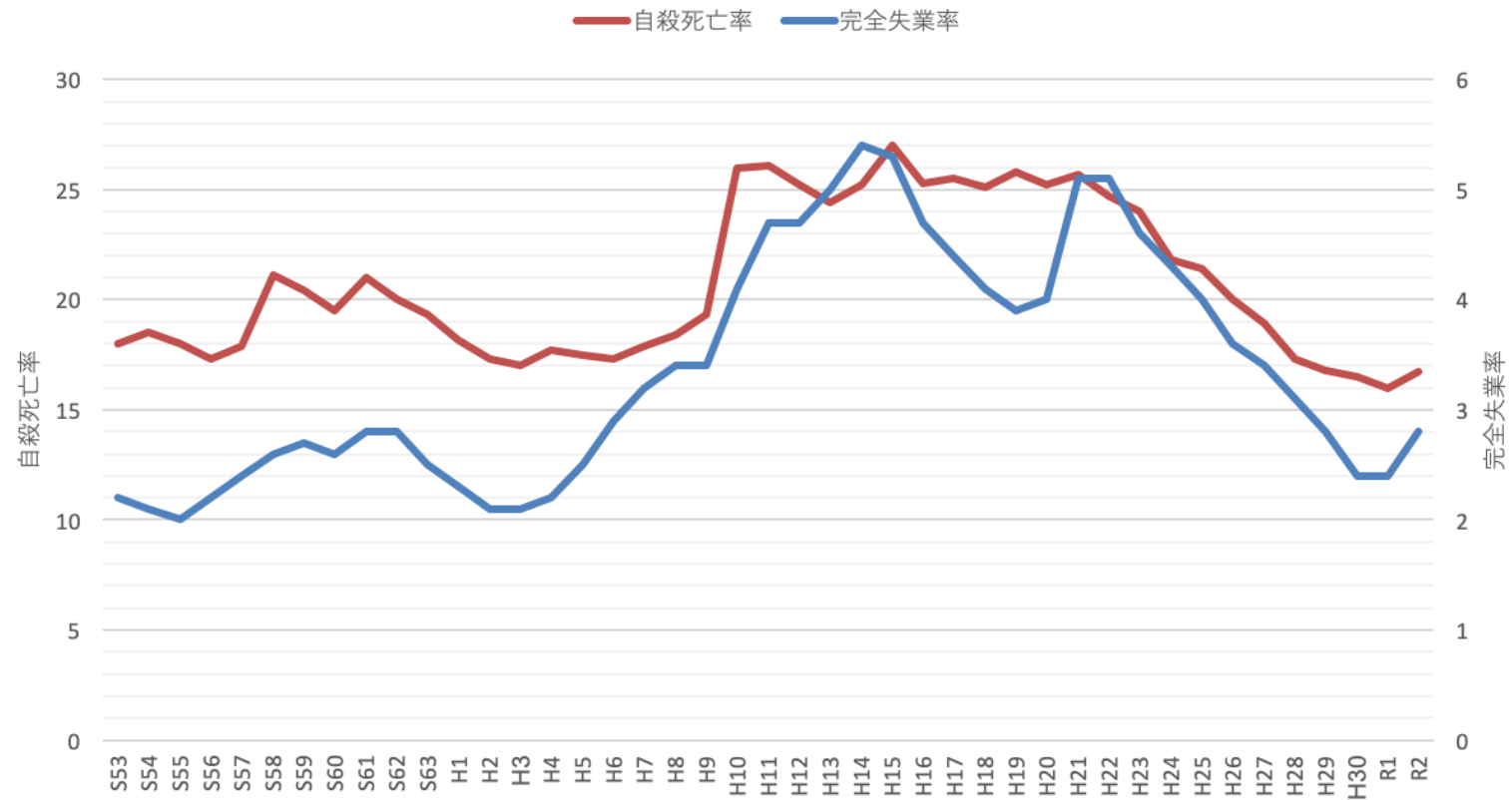
Recession hurts job market



Higher Unemployment leads to higher Suicides in Japan

<https://knowledge-bridge.info/memo/2228/>

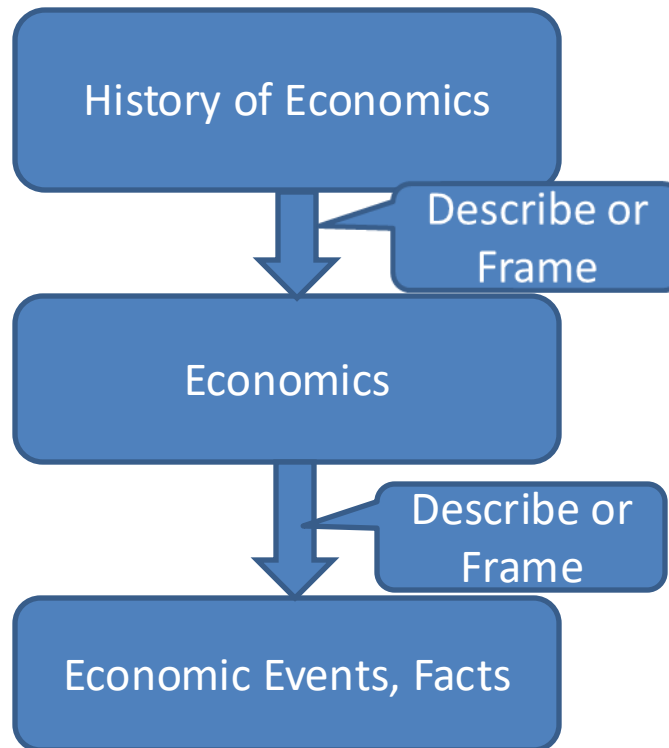
完全失業率と自殺死亡率の推移



II. What is the history of economic thought?

- Not Economic History, although some important relationship
- A meta-science
- But Economics is “Performative”: not only describing markets and economies but framing them
- History as self-reflection: history is not there, it should be written

History of Economics as a Meta-Science



Several Histories

- History of Contents (Internal History)
 - Theory, method
 - Ideas
- History of Discipline (External History)
 - Relationship with Economic Events
 - Relationship with other disciplines
 - Sociological characteristics (Fourcade 2009)
- History as Reconstruction
 - Historical vs. Rational

Why study the History of Economic Thought?

- 1. It helps a lot to learn and understand economics
 - Story and narrative are useful
 - Can learn a wide variety of economics
 - Orthodoxy and heterodoxy
 - Micro, Macro, Money and Banking, International Trade and Finance
- 2. It gives insights to “unresolved” questions
 - Old ideas never die. They just fade away...for a while.
 - “pedagogical advantage, new ideas, and insights into the ways of the human mind.” (Schumpeter 1954, 4)

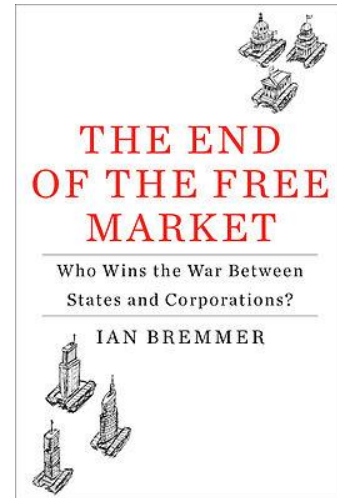
The Use of History

- 3. History is interesting by itself
- 1) Part of general culture
 - Is Neoclassical Economics a Market Fundamentalism?
 - Does “Neo-liberalism” neglect the poor?
- 2) History as an intellectual weapon
 - Smith, Marx, Keynes

Example 1:

The Rise of State Capitalism?

- Bremmer 2010
- Mercantilism as State Capitalism
- The Rise and Fall of Socialist States
 - The Soviet Union: 1917-1991
- After the late 70s to 2008: Deregulation, Privatization, and Globalization
- But the GFC and GR, and the rise of China
- After the COVID-19 pandemic, did authoritarian regimes fare better than democracies?



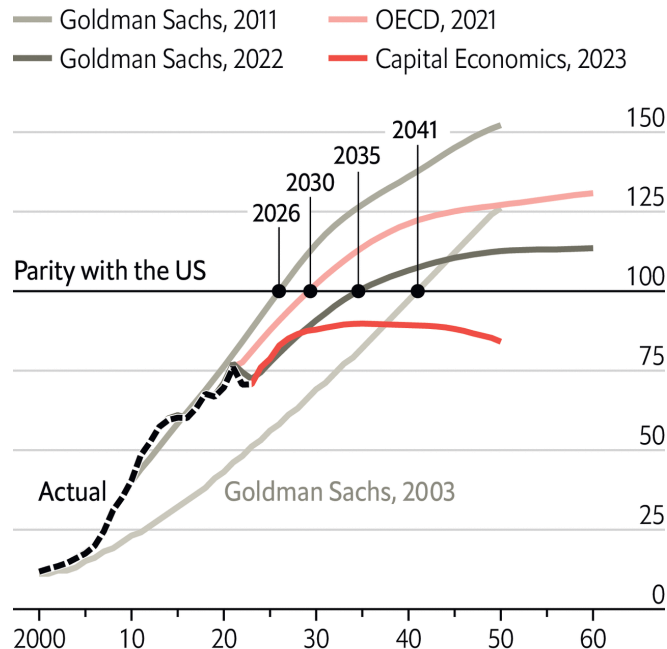
Will China's GDP Surpass America's? Further away

<https://www.economist.com/graphic-detail/2023/06/07/when-will-chinas-gdp-overtake-americas>

Smaller and further away

Forecasts of China's GDP

As % of United States'



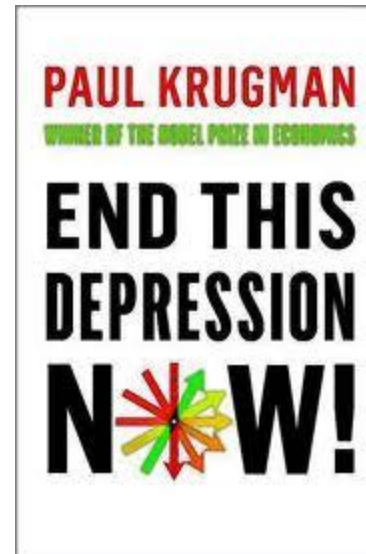
Sources: Goldman Sachs; OECD;
Capital Economics; *The Economist*
The Economist

Example 2: US-China Trade War

- Trade as the main battleground in the History of Economics
- The Return of the Corn Laws Debate?
 - Ricardo vs. Malthus
- Mercantilism
- Protectionism
 - Infant-industry argument
- Industrial Policy
 - Did it work in Japan or South Korea?
 - Could it work today and in the future?
- U.S.-China Trade Frictions

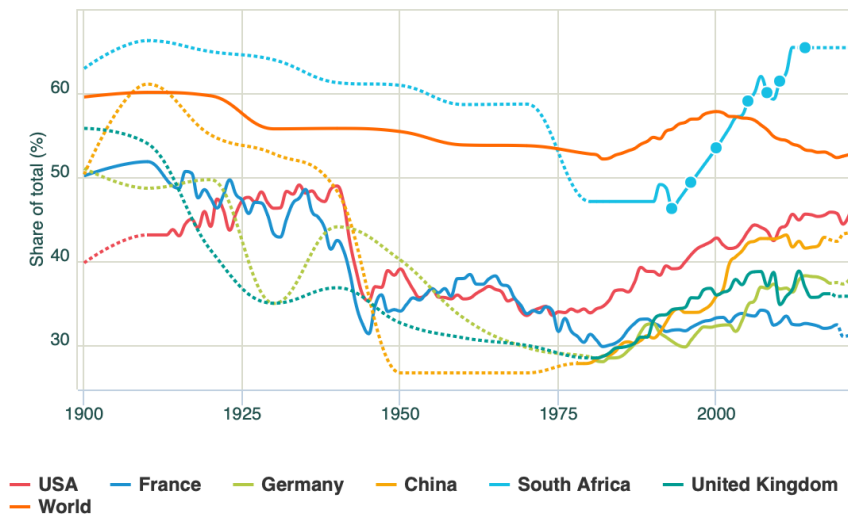
Example 3: The Great Depression and the Great Recession

- What should be done to fight the economic and financial crises?
- Keynes vs. Hayek videos
 - Round One
(<http://www.youtube.com/watch?v=d0nERTFo-Sk>)
 - Round Two
(<http://www.youtube.com/watch?v=GTQnarzmTOc&feature=fvwrel>)
- The future of China: the on-going Hayekian malinvestment?
- Wapshot 2011, Krugman 2012, White 2012

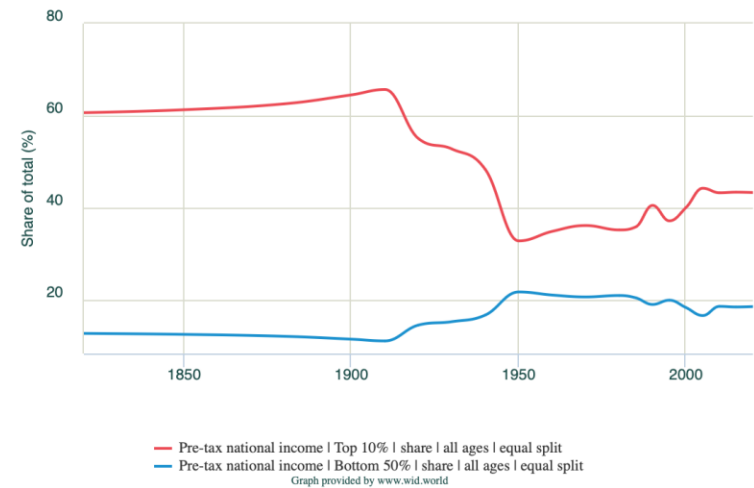


Example 4: Inequality

Top 10% national income share

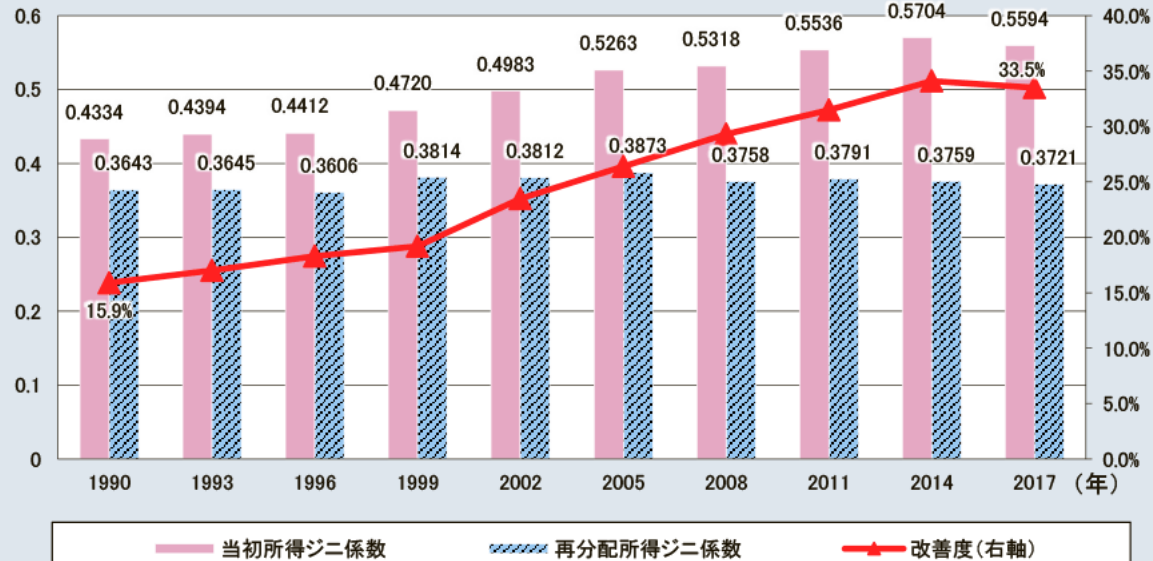


Income inequality, Japan, 1820-2020



Inequality has not increased much in post-redistribution income in Japan

図表 1-8-9 所得再分配によるジニ係数の改善の推移



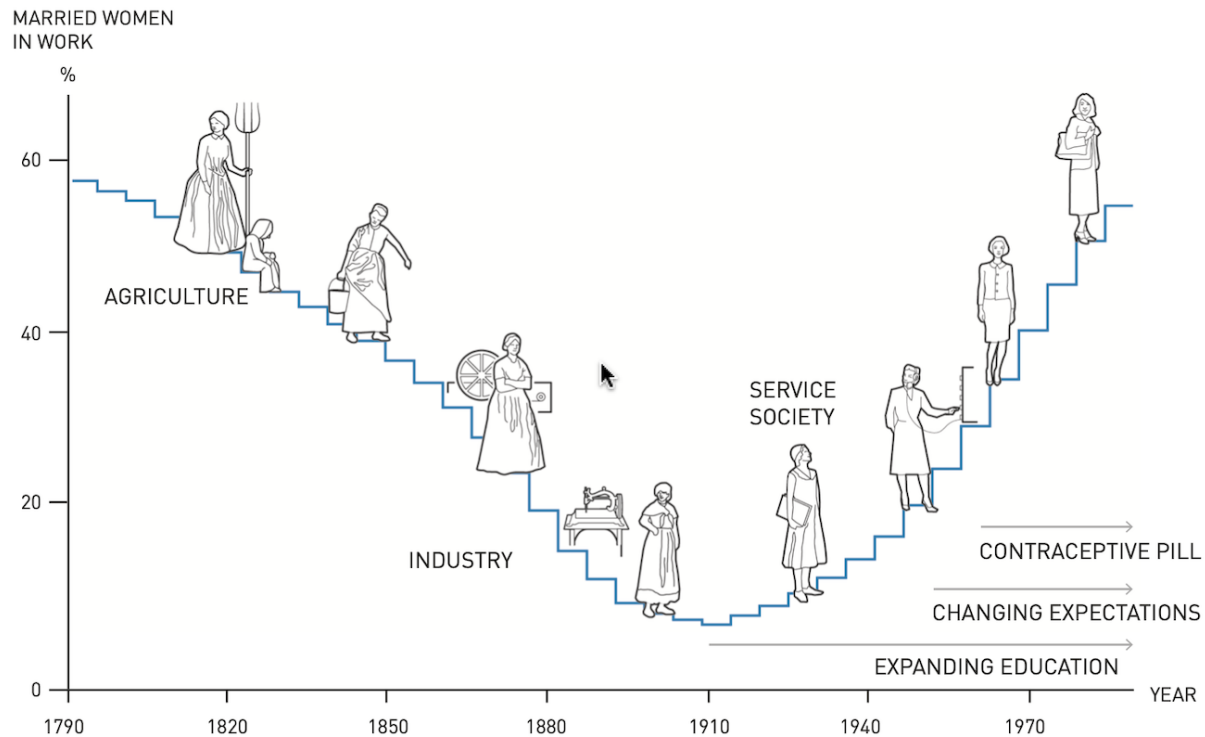
資料：厚生労働省政策統括官付政策立案・評価担当参事官室「所得再分配調査」

Another Inequality: Gender Gap

- Noble Prize in Economic Sciences Winner 2023
- *“for having advanced our understanding of women’s labour market outcomes”*
- Economic History and Labor Economics
- <https://www.nobelprize.org/prizes/economic-sciences/2023/press-release/>



The U-Shaped Curve



© Johan Jarnestad/The Royal Swedish Academy of Sciences

Why Still Gender Gap Persists?

Goldin (2021)

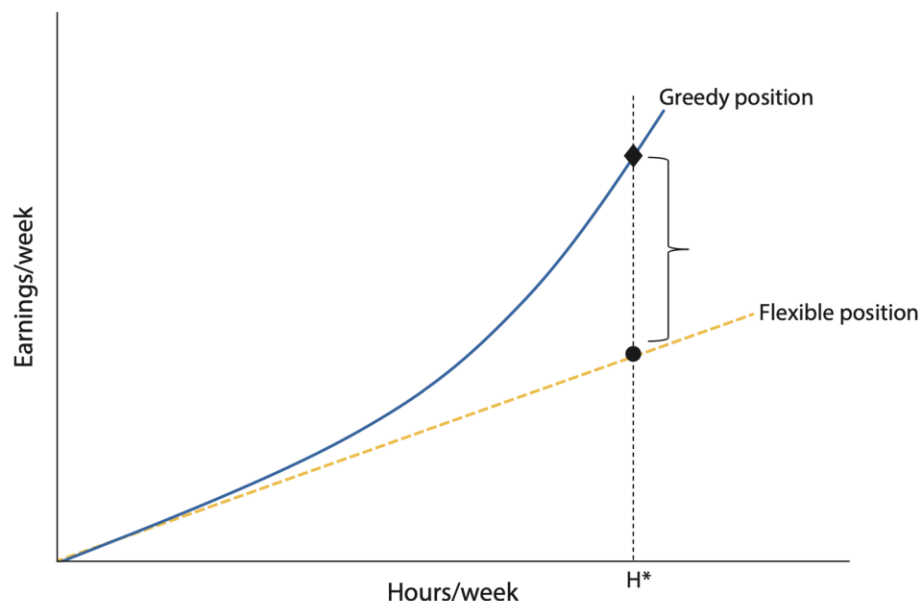


FIGURE 1.1. Gender Inequality and Couple Inequity

Notes: Consider the two positions offered to Isabel and Lucas. One is flexible, and no matter how many hours the employee works per week, the pay per hour is the same. The other position is less flexible (or “greedy”), and the more hours that are worked, the higher the wage per hour. The horizontal axis gives hours worked per week (or a measure indicating that particular hours must be worked). The vertical axis gives the total earnings per week. H^* is a usual weekly hours number, such as 40 or 45. The difference between the diamond (the greedy position) and the dot (the flexible position) illustrates the amount of income that a worker gives up each week by not taking the greedy position.

III. What do we learn?

Where to start?

- Attempts at understanding the economy is the history of humankind itself, the history of economic problems = the history of humankind
- E.g. The Analects of Confucius, Buddhism, the Bible
- Greek and Roman mythologies and philosophy
- Christian theology during the Medieval Europe
- Islam: the Age of Islam from 15 to 16th centuries
 - Impacts on the Renaissance

Outline of the Course

Mainly Chronological

- About 300 years of the history of economic thought
 - Starts from the Modern Ages
- II. The Emergence of a New Science
- III. A New Science and Its Enemies
- IV. Institutionalization and Innovations
- V. Crises and Opportunities: Inter-war period
- VI. The Age of Economics? Post-WWII World

Next Week

- Read the following texts.
- Petty, *Political Arithmetick*, Preface
- Mandeville, “The Grumbling Hive: or, Knaves turn’d Honest”
 - <https://oll.libertyfund.org/title/kaye-the-fable-of-the-bees-or-private-vices-publick-benefits-vol-1>
- John Law, *Money and Trade Considered*, Chapters 1, 3, 7, 8
 - <https://www.gutenberg.org/ebooks/70784>

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