Grasping Reality with Both Hands

The weblog
of Brad DeLong. Since 1999.
Comments (mostly) welcome.
Or email me at delong@hey.com with "delong-weblog" as the subject.
RSS feed.
Also on twitter @delong.

Five Books on the Classical Economists || Five Books Expert Recommendations

Five Books Expert Recommendations: *Books on the Classical Economists* https://fivebooks.com/best-books/classical-economists-brad-delong/: Recommended by Brad DeLong. They were an eclectic bunch, including, among others, a stock market speculator, a moral philosopher, a cleric, a lawyer and a journalist. From the late-18th to the mid-19th century, they provided the first systematic explanations of how economies work, where they fail and how they might be made to work better. Here, Brad DeLong, a professor of economics at UC Berkeley, introduces the classical economists, and suggests books to read to learn more about them and what they were trying to achieve.

Interview by Benedict King:

- *The Passions and the Interests*, by **Albert Hirschman** https://www.amazon.com/dp/0691160252
- *The Worldly Philosophers*, by **Robert L Heilbroner** https://www.amazon.com/dp/068486214X
- *The Classical Economists Revisited*, by **D. P. O'Brien** https://www.amazon.com/dp/B06ZZRG5LV
- *Economic Sentiments: Adam Smith, Condorcet & the Enlightenment*, **by Emma Rothschild** https://www.amazon.com/dp/0674008375
- *Karl Marx: A Nineteenth-Century Life*, by **Jonathan Sperber** https://www.amazon.com/dp/087140737X

Q: Before we get into the books, could you just set the scene by telling us who the classical economists were, individually speaking. There was Adam Smith, Thomas Malthus, David Ricardo, and Jean-Baptiste Say in France. Are there other obvious ones that you would include in that list?

I would say that Smith, Malthus and Ricardo are the big three, although you can argue about whether Smith was a classical economist or rather a pre-economist. Smith viewed himself very much as a moral philosopher. He always had a much broader range and scope than Malthus or Ricardo in terms of the business that he thought he was in.

If Smith is the first generation, the second generation is Ricardo, Malthus and Say. Then there's a third generation, people like Alexis de Tocqueville's friend Nassau Senior, and J.R. McCulloch, who actually held the first professorship in political economy at University College London.

Mountifort Longfield is another, very underrated, writing in Ireland things that anticipated the rest of the profession by 30 years; and John Stuart Mill, of course. There's also Karl Marx and Friedrich Engels and then there are a bunch of native, homegrown English Ricardian socialists as well, throwing garbage at the rest of the classical economists, saying, 'you aren't focused on what's important, you're focused on what's unimportant and what you are doing is running ideological interference for a bunch of nasty people and social movements and you should man up and actually think more deeply about how the economy really works.'

But the way we conceptualize the theory is that Smith originated it, then you have Malthus and Ricardo and maybe Say in the second generation. Then you have people who explicate and develop their doctrines, but don't make a great deal of progress in understanding until you get to the neoclassical economists, William Stanley Jevons on the one hand and Léon Walras on the other. Once you have Jevons and Walras and company, the thing takes off and turns into the supply and demand, utility economics that we have today.

Q: What were the primary assumptions that united the classical economists and to what extent were they self-consciously a group? Did they know each other and correspond with each other?

They did know each other very well. Ricardo and Malthus, especially, were close to being the best of friends. They viewed themselves as having very important things to say about how the world worked, because they understood—we'll call it—'the laws of economics'. They understood how largely self-interested people engaged in economic activity. And, more importantly, they understood how the system as a whole behaved. They had insights that others were deprived of because they bet that the economic system would very quickly head for a point of equilibrium, of balance, and that it would tend to stay at that particular point of equilibrium. This was Adam Smith's great insight; the point of balance was not something that was intended by any of the people who worked in the market economy. It was, rather, a consequence of the way the system as a whole fitted together, as opposed to a decision by any one individual or group of people that things should be thus and so.

Q: I suppose their predecessors, the mercantilists, would have seen economic management as very much a top-down, government-directed activity?

Very much top-down. They believed that the government should control things in order to achieve particular ends, while Smith developed this view that the system has its own logic and that governmental attempts to interfere with it or even to direct it—unless very sensitive and cleverly thought through, and often even then—will wind up doing things that the government directors did not intend. In fact, you can go back to David Hume's argument on the balance of trade, which anticipated Smith. He argued that all mercantilist policies achieve is to raise the price level inside the country, making the country's commodities more expensive, without actually enlarging its real wealth.

Q: And he would have spoken about these things with Smith, right, because they knew each other?

They were indeed best friends. In fact, when Smith's first book came out, there's a rather long letter from David Hume, who was in London, to Adam Smith up in Scotland, very curious to learn about how the book is being received. And so page after page Hume says, 'I'm about to tell you how the book is doing' and then he writes a paragraph not about that, but about something else completely unrelated, and all the while he keeps dropping into the letter observations about how, 'you must remember, my dear Smith, that the applause of the multitude and the crowd is not the kind of thing that any philosopher should seek', that a philosopher 'should be happy to have a few discerning readers or students and not expect any kind of mass audience of any sort'. And then, at the end, the punchline is, 'And so, my dear Smith, you must brace yourself for the utter disappointment that your book has sold out, it has received enormous praise, everyone wants more copies, reprints are on order, and various high government officials are saying, "hey this guy is really smart. Let's try to figure out some way to channel some money to him so he can think some more."'

Q: Was that The Theory of Moral Sentiments, or The Wealth of Nations?

The Theory of Moral Sentiments, in 1759.

Q: Let's move on to the books you're recommending about the classical economists. The first one is Albert O. Hirschman's The Passions and the Interests: Political Arguments for Capitalism before its Triumph. This sets out some of the intellectual background of the 17th and 18th century to the emergence of classical economics, doesn't it? Tell us a bit about the story.

The story is that western Europe seemed to be moving into a new kind of society, a commercial society, in which people were no longer concentrated so much in traditional professions, or constrained by what their parents had done, or by their social position, in determining what they should do.

The individual's place in society shifted from being embedded in a network in which pretty much everyone you interacted with, you knew quite well and had very strong expectations about what kind of person you were, given your particular role in society, to a society in which there were all these market exchanges, which were in large part, more or less at arm's length.

Human societies require a substantial division of labor. We're much more powerful and competent and capable in groups than we are on our own. But, in order to have a division of labor, we have to be dependent on each other. We have to rely on each other to fulfil a great deal of each other's needs. And that requires an awful lot of social trust. And how do you build that? If you're making something for someone else or doing a service in return for something else, how certain are you that they're going to reciprocate, that this is going to be win-win, rather than win-lose? How can you know someone won't just take the stuff you made for them and then get out of Dodge, leaving you holding the bag?

Back in the original and rude state of humanity, there really are only three groups of people whom you could count on. You could count on your close kin, and not all of them; you could count on your close friends, although not all of them; and you could count on your close neighbors. All of these groups are people to whom you have immensely thick sociological ties. You see them again and again and so you can have confidence and trust that you're in a gift-exchange relationship, or a guest-host relationship, with this fairly small circle of people whom you know well.

And then we invent money. And we trust money. And, all of a sudden, you don't have to know the person you're transacting with well or trust them a lot. You still have to do due diligence and you still have to look in the horse's mouth, at its teeth, to see how old it is. You still have to ask around to see if they have a reputation. You still need to test out their products. But once you have money, all of a sudden, you can form a win-win division of labor, not just with your close friends, your close neighbors, and your close kin, but with pretty much anyone in the world.

In so doing, you greatly expand the size of the division of labor you can effect, and you greatly expand humanity's and your potential productivity because you can source whatever you get from the best and most efficient producers in the world, and all because there's this thing called money that serves as liquid trust. Instead of saying, 'I'll do you this favor and make this thing for you now and you'll do me another favour—we're not quite sure what it will be—and make something for me in three months', all of a sudden a transaction can be open and closed in an hour or a minute.

And so, all of a sudden, we are not only vastly more productive, but we begin looking at everyone else in society as a potential friend because they don't regard us as a clan enemy to be killed, or as a stranger to be robbed. You can trust people beyond the members of your clan, because practically everyone is a potential participant in a win-win exchange. I might wind up being on the other side of a counter and they might do me a favor or provide me with something useful. I provide them with money, which enhances their social power, as well. All of a sudden life becomes potentially a lot better and easier, because the people you run into are not people to fear, but people to welcome, with whom you might be able to trade. At the same time the economy, as a whole, acquires a kind of logic and power and capability that no individual has.

An example of how this works: there used to be a huge, 30- or 40-foot tall bronze statue of Athena on top of the Acropolis in Athens. You could see the sun gleaming off of it as you rounded the southern cape of Attica, sailing into Athens. It weighed something like 80 tons and it's bronze. To make bronze you need copper, which is very soft, and you need tin, around 10 per cent as much tin as copper. So, they needed about seven tons of tin in order to make this statue.

The historian Herodotus was wandering around Athens and he got curious as to where all this tin came from. There was no tin in Greece. There was no tin he knew of in the Aegean. In fact, there was no tin anywhere in the Mediterranean that he knew of. He asked people and found that nobody in Athens knew where this seven tons of tin had come from. He talked to more people and to the sailors who actually brought the tin. They told him they had bought it in a market in Sicily, in the city of Syracuse.

He talked to other sailors and they began telling him more and more outrageous lies about where the tin came from and how it got there. They told him that, beyond the pillars of Hercules, beyond the Strait of Gibraltar, there were these strange islands where it was foggy all the time and there was tin. You practically just scratched the ground and there was tin. And the tin had gotten all the way from there to Greece. Herodotus disbelieved them. He refused to believe that anyone would live somewhere where it was foggy all the time and so cold.

But the Athenians had bought the tin from the markets in Syracuse in Sicily; and the people in Syracuse had bought the tin from the markets in Massilia (what's now Marseille in France); and it had come down the Rhone through another chain of merchants; and had been transported from the Seine to the Rhone by another group; and then it had been carried down the river by the merchants of northern Gaul. Before that, it had been carried across the English Channel by yet another group of merchants, who had bought it from the tin miners of Cornwall, who had dug all this stuff out because, for some reason, these weirdos from the east were willing to pay an awful lot of money for this strange metal that was not terribly useful for them, but very, very useful when you have lots of copper, as you do in Greece, and when you can alloy it with ten per cent tin to make hard and durable bronze. It's called the Bronze Age for a reason.

The economy as a whole knew that there was tin in Cornwall, that you could combine it with copper in Greece to make large and durable statues, but no individual person anywhere in western civilization, such as it was back in the mid-300s BC, actually knew this or knew where tin mining was going on, or how it was produced. And this enormous expansion of human capabilities, together with how it changed human manners and attitudes toward each other, changed the world. It generated a genuinely commercial society, powerful and productive and rich and peaceful relative to earlier societies. And these societies were ones in which you looked upon people as benevolent partners in trade, rather than either strangers you might steal from, or enemies you had to kill, or maybe clan members to be aided.

That shift away from a world in which entrepreneurship is exercised and social power gained primarily by oppressing people and taking their stuff, or making them work for you, to a wealthier, more sophisticated world based much more on win-win exchange is the meat of Hirschman's book. It's a look back on how European intellectuals reacted when, all of a sudden, it became possible to run a civilization based not on the passions for those we love and those we hate, but rather on the interests we have in all cooperating, even though we do not terribly care about each other. We're all useful to each other and so we can live in peace. It's a wonderful book.

I have always loathed the Institute for Advanced Study, ever since I arrived at Harvard in 1978 and was reading books by Albert Hirschman. I thought he was wonderful and was planning to take his course in the fall of 1979 as a sophomore. Then, in the summer of 1979, the Institute for Advanced Study offered him a zero-teaching job and he went off to Princeton and no one ever saw him in the classroom again.

That made my life worse and I didn't have the choice to take his course. I've never had a chance to do an injury to Princeton's Institute for Advanced Study so far, nothing's come around. But they should know I'm in the weeds waiting for them.

Q: How do you square that with the classical economic theory of interest?

Well, passions are important. Once we start thinking that we ought to regard other people with benevolence because society has gotten peaceful and other people are participants in win-win exchange, that does change how we think we ought to view the world and how we ought to think we view our fellow man.

Q: Didn't David Hume say that reason was the servant of the passions, rather than the foundational characteristic of the human person?

Yes, but as Michael Ignatieff pointed out, Hume's passions are very pallid things. They're things like 'I would like to eat some roast duck tonight', or 'I would like to read a book' or 'I would like to go to Paris and look at clothes.'

One of the very interesting things about Adam Smith is how he paints a world of a commercial society, of peaceful exchange in 1759, just 14 years after the '45 rebellion in Scotland and 44 years after the '15. One of the major themes of The Wealth of Nations is the transition from the old feudal society in all its incarnations, one in which power is acquired by having lots of dependents with weapons and in which the principal use of your wealth is to feed more warriors meat in your hall so that they will fight for you, to a world in which the Duke of Argyll can no longer put 400 Campbell dependents in arms to fight at a week's notice but, instead, one in which he's busily buying Louis XV furniture.

Q: And removing his clansmen from his land in order to cover it with sheep…

Yes. But only with the coming of luxury does the Duke of Argyll think that having all these angry, belligerent, drunk wastrels hanging around his palace is not what he really wants. And that plays a major role in moving from a society of acquisition and dominance, to a society of exchange, cooperation and productivity. And, of course, things work the other way around. The passions remain, and one of the passions is that we want people to think well of us, including ourselves.

In *The Theory of Moral Sentiments* there is a very nice set piece, in which Smith asks a question: what would a philosopher think if you told him that a hundred thousand people are going to die in China in an earthquake tomorrow? Well, the philosopher would feel a little bit sad, but he'd say, 'They're far away. I don't know any of them.' He'd have some reflections about the vanity of human desires, the imperiousness of chance and the uncertainty of life and these days he'd say, 'That's a great topic for my next web-log column.' He'd spend a couple of hours productively and happily outlining his article and then go to sleep and sleep like a baby.

But, if you were to tell a philosopher that tomorrow morning a madman is going to come into your house, terrorize you, and tear off your little finger, you wouldn't sleep a wink all night long.

The passions are very firmly engaged in avoiding bodily damage, even to your little finger, as opposed to the lives and livelihoods of distant people of whom you know nothing. And, yet, Smith says that we have taught ourselves that we would regard ourselves as moral monsters to sacrifice the livelihoods of a hundred thousand people who we do not know simply to retain a little bodily integrity. Every philosopher in every London drawing room would be lining up to say, 'I'm would give away my little finger in order to prevent that earthquake' and would regard themselves as a good and sane and happy person to be willing to make this sacrifice, even for people whom they did not know at all, even if the people would never know what they had done. And that move into a much more peaceful, friendly and productive civilization—where even war has laws that mitigate its damage—was an important part of the Enlightenment and an important part of the world the classical economists hoped to construct.

Q: Let's move on to The Worldly Philosophers by Robert Heilbroner. Tell us about this book.

This is a great book. It still has not been equalled. It's a run through where the classical economists came from, who they were, what they thought and why they thought what they thought and how they worked as a group to try to produce a more productive and peaceful and prosperous civilization.

They regarded themselves as engaged in a holy mission to understand this commercial, and then later industrial, economy in which humanity was increasingly enmeshed and how to properly manage it. The book is truly wonderful. It still saddens me that no one has managed to write anything as good, to give a sense of who these people were, not just the classical economists, but the neoclassical and even the Keynesian economists, too: how they saw the world and the influence they had.

Q: Does it start with Smith?

It goes back a little bit before Smith. The meat of the book goes from Smith to Keynes. Afterwards, there are extra chapters, written for the second and subsequent editions, bringing the story forward further in time. The main thrust of the story is humanity's coming to consciousness, through the work of economists from Adam Smith to John Maynard Keynes, about how to properly understand and manage a commercial and industrial economy to make it sufficiently productive and to make society prosperous. The added chapters are more of a downer: it turned out that John Maynard Keynes was not the last word in economics after all and that there were economic problems that remained, that humanity proved incapable of successfully managing the economy for public good and social betterment. We've seen further evidence of that in the Great Recession of 2008-10, the secular stagnation since, the unexpectedly rapid and extraordinary rise in income and wealth inequality since 1980, the probable effects of that rise in inequality upon our politics and our political organization—I don't think it's possible to understand either Donald Trump or Boris Johnson without the shifts in income distribution in the North Atlantic since 1980.

Those parts do not fit with what is the happy, enlightening and very utopian, forward-looking story that Heilbroner tells in the core of the book, about each generation of economists solving problems left unsolved by previous ones and, ultimately, arriving at what you could call a Keynesian-Pigouvian synthesis—with some Smithian synthesis—of proper macroeconomic policy to preserve full employment, of taxes and subsidies on especially desirable or especially noxious activities to get the market focused on the right direction, and great trust on the properly managed market economy as a very powerful human social calculating mechanism and institution for coordinating our extraordinarily wide, deep and complicated societal division of labor.

Q: And does the book go thinker by thinker?

It does. Some of them are grouped together. It goes chronologically. Its first major note is Smith. It then goes on to Ricardo's insights and Ricardo's blindnesses, then to Thomas Robert Malthus trying to get Ricardo to think about the business cycle systematically and failing to do so, John Stuart Mill's puzzling over how it was that you could get the economy to do well and how much you had to socialize in order to make the economy work properly for human betterment. That's what pushed John Stuart Mill towards advocating some form of socialization of the distribution of property, and maybe of more. Even in the early 1870s, John Stuart Mill looked at the economy in which he was enmeshed and said, 'It's been great for the rich. It's been great for production. It has greatly enlarged the size and comforts of the middle class, but the working class is still stuck in the same near-subsistence, life-as-nasty-brutish-and-short trap that it was one, two or five centuries ago.'

He argued that we needed not only a full-fledged redistribution of property and the provision by the government of a lot of goods and services, but a limit to human fertility, that child licenses should be required in order to prevent us falling into the Malthusian trap of human numbers out-running natural resources. Mill looked at all the innovations of the century before 1871. He saw huge gains in productivity and technology, but he also saw that the productivity gains that had been seen over the previous century had not trickled down to the working class. So he rejected the idea that the market economy by itself could and would do the job and became a socialist, in a rather odd way.

Q: You mentioned that Mill was more interested in these social aspects. Were Smith and the earlier classical economists concerned about them, too, but simply expected their system to produce a gradual amelioration across society, which subsequently turned out not to materialise?

I think that Smith thought it had already been largely accomplished and that it would continue to be accomplished. That is, productivity in Smith's thought had become so great that the workers of Britain were substantially prosperous. They were much more prosperous than they'd been one century before, let alone two or three centuries before and he thought that this trend was likely to continue into the future.

It is Malthus who really brings down the hammer and says that people will ultimately breed no matter what. And because of that there are really only two possible endpoints. One endpoint is that the working class is desperately poor. Children are so malnourished that their immune systems are compromised and they are carried off by the common cold, and women are so malnourished that they can't really provide their infants with enough milk. Infant mortality is extraordinarily high, or even women so skinny that they cease ovulating. In this endpoint, even though your average woman has ten pregnancies, only two children survive to reproduce and so the population remains stable.

The other endpoint is monarchy, patriarchy and religion, where fathers have such authority that they are able to tell prospective suitors, 'You cannot marry my daughter until you have a farm of your own and can provide her with a prosperous life. And I don't care how much she loves you and you say you love her. You're not getting married until you are prosperous enough.' But this patriarchy needs to be backed up by monarchy because, if you don't have a big king at the top to demonstrate the authority of the big father, then how will little fathers retain their authority?

And then you also need religion. The daughters and the prospective sons-in-law need to be absolutely certain that, if they engage in sexual intercourse before marriage, they will go to hell. Otherwise they'll do what people do. Only if you have your monarchy, patriarchy and religious orthodoxy can you have a society that can stay out of this Malthusian trap.

And it stays out of this Malthusian trap by postponing the average age of female first marriage to 26, so the decade between 16 and 26 is not one in which women have children. It's only 26 to 36. By cutting down potential fecundity by half, you can actually maintain a good society, which is, of course, the crux of Malthus's argument against Condorcet, Godwin and co. He argued that they wanted to destroy the authority of religion, they wanted to destroy the authority of monarchs, and Godwin even had this girlfriend, Mary Wollstonecraft, who wanted to destroy the authority of fathers over their daughters. He argued that they thought this would lead to progressive Enlightenment, human knowledge and happiness, but that, actually, it would lead to a world in which everyone is starving to death and fighting over crusts of bread—because our fertility will have outrun our natural resources to such a degree that the world will have become an absolute hellhole.

Q: That's fascinating. I knew Malthus was a clergyman, but I hadn't realized that his pessimism was deeply rooted in this allegiance to a very conservative, patriarchal, monarchical view of society. But that was absolutely central to his thinking?

Yes, and Malthus's point is that the workings of the system—the system, in this case, being both an economy in which there are diminishing returns to scale and limited natural resources—and also human psychology in its orientation towards fecundity, greatly limit the extent to which we can produce utopia. We can only get as close to Utopia as possible by constructing a society in which women are absolutely terrified that they will go to hell if they have sex before 26.

If you can do that, you can manage it, otherwise not. But, of course, other people found other ways out. This Malthusian view of the world is why John Stuart Mill was arrested for distributing birth-control information in the streets of London as a young man. But this—artificial birth control and other expedients—was viewed by Malthus and others as a grotesque violation of the natural order.

Q: And all that's covered in the Heilbroner book is it?

Yes.

Q: The next book is D.P. O'Brien The Classical Economists Revisited. What does this book add to the story of the classical economists beyond what Heilbroner has to say?

It's about the doctrine of laissez-faire, the doctrine that the government exists in order to protect property rights and established contracts and make sure that contracts are enforced and that that's the sole role of the government. That's not something that any sane economists actually taught. But it is what economists were thought to have taught. It is what (usually) right-wing propagandists, people who like the current distribution of property rights and who fear the consequences of a bigger and more intrusive government, especially one that is interested in progressive taxation, said that economists taught. It's what journalists, usually journalists with various right-wing connections or employers, said that economists taught or ought to have taught.

D.P. O'Brien talks about how economists don't just worry about how the economy works and don't just analyze technical questions and draws the links between these concerns and their more general moral and philosophical aims.

If you think about it, first of all, the market economy is going to fail to recognize all kinds of externalities that actually exist in the economy. It is going to fail to recognize pollution and congestion and all sorts of other things. It is going to fail to recognize the benefits of having communities of knowledge and inquiry in which people learn massively from each other without having to pay, because they can observe each other. Thus, we ought to have heavy taxes on pollution and heavy bounties for the acceleration of technological progress.

But, also, a market economy counts every dollar as equal. While, actually, if you're a good Benthamite utilitarian you count every person as equal. And, if you believe, as Bentham did and as virtually everyone does, that there's a declining marginal utility of wealth, that each rough doubling of your wealth does about as much to advance your ability to achieve your interests and your potential happiness as the last doubling—that going from £10,000 pounds to £20,000 is worth the same to you in your subjective terms as going from £20,000 to £40,000 and that that provides the same benefit as going from £40,000 to £80,000, that has strong implications. That tends to make you think that the economy gives ten times as much attention or weight to someone ten times as rich as someone else. We see this at its sharpest in Amartya Sen's studies of the Bengal famine where, because in 1942 and 1943 World War II was raging in the Pacific, all of a sudden there were an awful lot of people in Bengal who had no incomes at all. And because they had no incomes, the market economy rated their well-being as worth zero. And so, in a perfectly efficient, competitive market economy in Bengal, even though there was ample food available to feed the whole population, the value of the lives of those without any income was weighted at zero, and so three million people starved to death.

This is the market economy doing what the market economy always does in a Pareto, optimally efficient manner. It weights those who have wealth, their desires and interests a lot more than the desires and interests of those who have less wealth. And at the limit at which your wealth and income are zero, you have no desire or weight at all.

O'Brien is excellent at how economists wrestle with these distributional questions and, indeed, with Marx's nightmare that an extraordinarily unequal distribution of wealth was something the system would drive itself to.

Q: So, he's looking at the classical economist in a broader way and actually thinking about them in terms of modern economic problems?

He's diving deep, talking not just about Ricardo and Malthus and Smith, but also about the second and third layer people who had all kinds of interesting insights and who greatly expanded knowledge about how the economy worked, but who don't get the headlines.

Q: Let's move on to Emma Rothschild's book, *Economic Sentiments: Adam Smith, Condorcet & the Enlightenment*.

It's just a delightful book, looking at Smith and Condorcet. The Marquis de Condorcet was one of these great believers in utopia and in progress and in the Enlightenment. He ran afoul of the Terror during the French Revolution. The story is he was caught and executed when attempting to flee through France in disguise. He went into a relatively low-class, rural inn and, when asked how many eggs he wanted in his omelette, he said, 'a dozen'. Thus, he was revealed to be an aristocrat, because who but an aristocrat could possibly be so clueless as to think 12 eggs in an omelette was normal. So, he was executed.

Both of these people are thinking much more deeply, much more moral-philosophically, about how to deal with the changing societies in which they were embedded. The market is not adequate for any of these people and yet, also, they were firm believers that they were on the road to utopia.

Rothschild is absolutely wonderful to talk to, but it's not a book that is terribly accessible, unless you're a professor-type person. You have to know a lot about economics, a bunch about the economy, something about the 18th and 19th century Enlightenment. The book reminds me, in that sense, of Thomas Piketty's Capital in the 21st Century, which demands that you know not just economics, but MIT-style economic theory and Balzac and economic history—the types of things that made me think, back when I was seeing early drafts of Piketty, that the book would have an audience of 5,000 worldwide—tops—because you have to know so much to get what's in it.

Rothschild's is the same, but it is worthwhile. I'm definitely up for everyone trying to grapple with it. Emma Rothschild gets you to figure out that Smith was, after he died, regarded as a dangerous radical precisely because he would talk about how great it is that England had a society in which political power was held by the landlords. But the reason that that was great was not because the landlords deserved to hold political power, but rather because you couldn't give political power to manufacturers or merchants because they would be very interested in forming monopolies that benefited themselves and because public education was not advanced in England and so, as a result, the lower classes were stultified by the fact that they were uneducated and trapped in boring occupations.

That was in striking contrast to, say, the citizens of Republican Rome who, because they owned their own farms and owned their own weapons and fought in their own battles, could be trusted with a large share of the sovereignty of the Roman Republic. England had to rely on a professional army and navy and did not have a lower class that was able to deal with having the best political system in the world, which of course would have been that of the Roman Republic. If you read between the lines of Adam Smith, there are an awful lot of arch and sardonic snarks delivered against the rulers of his day.

He's very much pro-freedom, very much pro-moral sympathy, very much in favor of everyone having a right to equal treatment and equal respect. He hoped that the ruling classes' successors would be smarter than they were. He thought that there were still an awful lot of things that could be learned. Yet he is very optimistic: he sees the moderns as knowing much more than the classics, sees the Enlightenment as a progressive thing that holds the promise of opening up the possibilities for the future.

Q: Doesn't Emma Rothschild talk about how Condorcet and Smith saw freedom of economic activity as embedded in much broader ideas of freedom and sociability?

Well, if you don't have freedom of economic activity, then you're a serf. And, even if you're a prosperous serf, you're still at the disposal of your landlord. You're still under the domination of somebody upper class in one way or another.

If freedom is the power to say 'no' to people who want to exercise power over you, you have to have economic freedom as a dimension to that, or you can be tied to positions you do not want out of fear that you're going to lose, not necessarily your life, but your livelihood. It's not enough that there be a free market, you have to have some kind of power to make something useful and interesting and valuable in order for the market economy to be worth it. Otherwise, as Karl Marx said, the freedom of the market is nothing but the freedom to enslave yourself to a boss who overworks you so you can keep your children from starving to death. You require not just freedom to transact and freedom to make and freedom to change your occupation. You have to have resources either inside your head or inside your toolbox, or in the rights to land you've inherited, that make your labor actually worth something in the marketplace.

Q: So, Condorcet was wrestling with how to produce a serf-less society?

Yes, one of the big points that Emma Rothschild talks about is whether there should be a free market in grain on the grounds that traditionally a low price of grain was something that governments sought, if they wanted to be popular, most strikingly in the free grain dole to all citizens of Rome that Julius Caesar started. But for governments to do that, they've got to put a ceiling on the price of grain. That pretty much requires that you 'enserf' other people to produce the grain because why would they sell it below the market price? And what do you do when there's famine?

One of the best parts of Rothschild's book is when she talks about how Smith and Condorcet both wanted a free market in grain, so that producers had an incentive to produce and also so that those who might otherwise horde would have an incentive to sell their stockpiles. But you also need to lower taxes to protect tenants who are diverting their rent money to buying grain when there's a famine and the price of grain is high, and you need to provide sources of income for the unemployed. You would need to do all kinds of things to make sure that those rendered unemployed by things vastly outside their control have the cash they need to take advantage of the freedom of living in a market economy.

Q: Let's move on to Karl Marx: A Nineteenth Century Life by Jonathan Sperber. This looks at Marx's relationship to the classical economists, doesn't it, or why he can be understood much better as a 19th century figure looking back to the early 19th century, rather than forward to the 20th century?

There's always a question of how one should read Marx. Reading Marx's Capital is, I think, not terribly useful for most people. There are chapters of it that I absolutely love, but those chapters tend to be toward the end. And there's an awful lot that is wrong. There's an awful lot that's confused. There's a lot that's repetitive. There's an awful lot that is incomprehensible unless you are a mid-19th century German, who started out as a Hegelian philosopher and then became convinced that the real road to change was not through figuring out how to think correctly, but rather through political action, to bring about in Germany something like the French Revolution. You need to have Marx's understanding that political revolution wouldn't work without understanding how the economy is put together, because political freedom, the freedom to vote, without an economy that allows for high levels of productivity and also a fairly egalitarian distribution of the products of the economy is worth very little—and the economy by itself would not produce the equal distribution of income required.

If you have that experience, then Capital is written for you because you are tracking Karl Marx's career to such a degree that it makes sense. Otherwise, you're better reading someone about Marx than reading Marx. And Karl Marx: A 19th Century Life is an absolutely wonderful book because it takes him very seriously and also points out that what he was worried about are things that still, in large part, afflict our economic system today—such as the question of how to manage it for general and fairly equally divided prosperity. But he had to analyze it in the context of his particular time, with his particular concerns.

In some ways Marx turned Malthus on his head. Malthus thought that the market economy, left unaided—that is without being reinforced by patriarchy, orthodox religion and monarchy—would not produce a good society because individual worker productivity would be low because we'd be so short of natural resources. A scarcity of natural resources would mean that the marginal worker was not very productive and so couldn't bargain for much in the market economy. And so, the lives of the working class—the bulk of humanity—would remain nasty, brutish and short.

Marx thought that was not a problem. Marx thought human ingenuity, together with technological advance were such that resource scarcity would not be an important thing. So far Karl Marx has won that argument, although global warming may teach us differently in the future. So why then, Marx asked, was it that real wages were so low that even someone like John Stuart Mill could ask why this market economy hadn't produced anything of value for the working class? Marx thought the problem was that produced means of production—people's past labor crystallized in the form of buildings, machines and production processes—wasn't a complement to current labor, but rather a competitor with it. Bosses could store up crystallized past labor in the form of capital.

And, then, the fact that they owned all this past labor in the form of capital meant that they did not require the services of that many living workers in order to produce what they produced, and so as time passed, and as society grew richer, and as productivity increased and science advanced, it would, nevertheless, be the case that the forest of outstretched arms looking for work would get thicker and thicker, while each of the individual arms would get thinner and thinner.

Now, why couldn't property be evenly distributed? Well, property couldn't be evenly distributed because of the natural dynamic workings of the market economy—simple chance. You could start out with an equal distribution of property, what Marx would call a 'petit bourgeois' distribution. But some people would be lucky, others unlucky. The lucky would get richer and the unlucky poorer. Because the lucky are richer and have more capital at their disposal, they'd be more productive. The fact that they're more productive will mean they grow even richer and that the distribution of wealth and, eventually, of income will 'Brownian motion' itself away into a very inegalitarian, very concentrated distribution.

In that case, you then need the government to do something about it and, in Marx's view, what you need the government to do is to nationalize everything important and form a free society of associated producers, in which people democratically decide on what should be produced, rather than have a dictatorship of the plutocracy.

Marx was trying to understand why it was that the market economy was not producing a good outcome on its own. He was trying to figure out how it could possibly be that society was structured in this particular way. That was his lifetime's work and it was a very 19th century life—hence the title of the book.

Q: Did someone like Condorcet have a lot to say about how you could distribute capital more fairly through society?

Condorcet and the earlier classical economists thought there had been a monopoly of property in the hands of the landlord class, those who claimed to own the land because their ancestors had conquered Gaul under the banner of Clovis, king of the Franks back in the 400s. They thought that if you simply moved away from this kind of feudal or semi-feudal concentration of landed property in the hands of a few it would not be a great concern. And, indeed, Smith does not think that income and wealth inequality is a great concern.

You can find passages in Smith, especially in The Theory of Moral Sentiments where he says that everyone who turns 70 and has made a great success of life, and is now rich, wants to sit out in the sun in the park and reflect upon how pleasant life is. But you can sit outside in the park when you're 20 and reflect on how pleasant life is. To have spent hour after hour after hour in the counting house piling up more and more gold that you will never spend on anything that makes you truly happy—that is a psychological deformation that the upwardly mobile rich suffer from.

And, while it's a good thing for society that these people suffer from this deformation because it makes the economy more productive and prosperous, it's actually a bad thing for them. They should be much more Stoic and Epicurean. But, instead, the rich work for the rest of us, making a more prosperous economy and, yet, get very little in terms of lifetime happiness out of it. It's only when you get to Marx and John Stuart Mill that people begin saying, 'Wait a minute. We do have this society and it's very productive, much more productive than it was. We have all these wonderful technologies, but why the hell are people still living in the East End of London in the same way they were in the mid-18th century?'

Q: To what extent is Karl Marx a classical economist?

Marx is a German scholastic Hegelian philosopher trying to be an economist even though his natural metier is that of a journalist. However, he decides, I think correctly, that the key to understanding the world of the industrial revolution he was living through was the economy. Hence he decides what he really needs to become is a technical, theoretical economist. And so he spends the years from 1855 to the end of his life trying to nail down the economic argument, but never manages to do so even to his own satisfaction, let alone to the satisfaction of others.

He thought that there was no solution short of socialism. And he had reasons why. He thought you couldn't simply have the government impose somewhat more progressive taxes to redistribute income and wealth more evenly. Why not? Because money talks. And money talking would control the government. The rich would always have enough influence over the government to prevent it from enforcing an acceptable distribution of income and wealth through the economy.

Anyway, this is an absolutely wonderful book. I wish I'd read it 15 or 20 years ago. It greatly increases my sense of how he reached his positions and why he was so certain that he was right. Also, the book shows that, although he may not have come up with all the answers, he was certainly in there trying to develop them and he certainly came up with points of tension and worries that still worry us today. Marx stands at the origin of a great deal of what is still live in modern economics. The question of what kind of income and wealth distribution a market economy heads for is definitely a major concern today. Marx was one of the very first to produce a theory of the business cycle. I think it's a wrong theory, but it is a theory. Before Marx, Ricardo and Say denied there was a real problem, although Say changed his mind later on in life. Malthus thought that there was a problem, but got confused and thought it was tied up with the Malthusian problem of resource scarcity.

> Five Books aims to keep its book recommendations and interviews up to date. If you are the interviewee and would like to update your choice of books (or even just what you say about them) please email us at editor@fivebooks.com…

`.#books #highlighted #history #historyofeconomicthought #moralphilosophy #2020--09-13`

Posted on September 13, 2020 at 06:28 in #books, #highlighted, #moralphilosophy | Permalink | Comments (0)

Comments

Comment below or sign in with Typepad Facebook Twitter and more...

(You can use HTML tags like <b> <i> and <ul> to style your text. URLs automatically linked.)

Email address is not displayed with comment.

Name

Email Address

Web Site URL

Post Preview

Search Submit

>About Brad DeLong

Brad DeLong's Short Biography