The Worldly Philosophers Study Guide

The Worldly Philosophers by Robert Heilbroner

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Plot Summary

The Worldly Philosophers by Robert L. Heilbroner is a study of the theories of some of the greatest economic thinkers. It is a book that will never go out of date, even if it goes out of print because the theories discussed are still quite relevant. Heilbroner presents some of the most interesting periods in the development of economic philosophical thinking, covering the theories of Adam Smith, Karl Marx, John Stuart Mill, John Maynard Keynes, Joseph Schumpeter, and Thorstein Veblen. Each of these are the subject of their own chapters. David Ricardo and Thomas Malthus are covered together in one chapter. There is a chapter on the Utopian Socialists and another on the Victorian underworld. The book has the subtitle, "The Lives, Times and Ideas of the Great Economic Thinkers." A large part of the chapters are dedicated to the lives of these men and their careers, which Heilbroner makes interesting reading.Heibroner goes further than a text book in that he introduces the readers to their wives and families. All of these men left their mark on the world in some way, even though they were not famous or rulers.

The book begins with the subject of Political Economy since in its early days, economics or political economy was a branch of philosophy. The social and political structures were different then and so was the economy. The economists studied how the system functioned and for many of the early economists, like Adam Smith, economics was a study of the human nature—why men could act in their own best interests and end up doing what was in the best interests of the group.

Heilbroner is not teaching the reader economics. He wrote the book in graduate school, working as a freelance writer to earn some money. He does not delve into economic theory or present the theory of any one economist in detail. The book does cover several of the major points of the theories of each of these economists, but not in detail. Heilbroner provides just enough information so the reader has an idea of what he is talking about and this may be one of the reasons for the popularity of the book. It is very light on economics, which makes the book easy for the reader to understand because he only has to grasp a few economic points for each economist. With Smith, the issue emphasized is the invisible hand, with Ricardo it is rent, with Malthus, it is population growth. The advantage of the book is that the reader can see the development of the field of economics from the way Heilbroner presents the material. Each economist is presented and studied as an individual, even though there is some comparing and contrasting of ideas. Then in the final chapter, Heilbroner considers them as a group with a greater amount of comparing and contrasting.

The book is relatively easy reading as it does not present much economic theory and the theory that it does present is done in everyday English.

Introduction

Introduction Summary and Analysis

Heilbroner begins the book by saying it is limited to a small number of men who did more for history than famous men did. They did this with theories that shaped the thinking of men. "And because he who enlists a man's mind wields a power even greater than the sword or the scepter, these men shaped and swayed the world. Few of them ever lifted a finger in action; they worked, in the main, as scholars—quietly, inconspicuously, and without much regard for what the world had to say about them. But they left in their train shattered empires and exploded continents; they buttressed and undermined political regimes; they set class against class and even nation against nation—not because they plotted mischief, but because of the extraordinary power of their ideas" (Chapter 1, pg. 13). These are the men that Heilbroner refers to as the Great Economists.

Heilbroner finds it strange that people don't know much about these men; in fact, most don't even know who they are. Most people find economics to be a difficult subject better left to the experts which in actuality could not be further from the truth. The work of economists makes a difference in the everyday lives of the people. Not all economists propose ideas that are of worldly importance but many do. If modern economics is boring, there is no one to blame but the practitioners. The economists provide the intellectual architecture for everyday modern life.

Heilbroner mentions a group of nine men from different walks of life and calls them: a philosopher, madman, cleric, stockbroker, revolutionary, nobleman, aesthete, skeptic and a tramp. Three of them had made fortunes and most of them could not manage their own finances. They held varied views about the world and all of them wrote books of different kinds. Some had to pay to have theirs published. This is the group that Heilbroner refers to as the worldly philosophers. He uses them as an example of how such a group of disparate men and ideas could relate to the common threads of life. Each person has his own place in the scheme of things and this is the chaos that the economist makes order out of. This is the core of economics—the search for the social order and the meaning of the order. These are the ideas that shape society.

Economics did not begin with Adam Smith as many think. Economic problems existed for thousands of years before Smith, even though they were not identified as economic problems and there was no field called economics and no people called economists. This is the subject of the second chapter.

The Economic Revolution

The Economic Revolution Summary and Analysis

Survival has always been a problems confronted by man, from his earliest days onward. Man has had to survive not only as an individual but also as a member of a social group. Man's existence is proof that he has solved this problem but the fact that many live in misery is proof that they don't have a perfect solution. The problem is that man has to rely on man. Man must work in groups and cooperate with others in order to achieve certain accomplishments. The fact that man is self-centered makes this difficult. In early societies this difficulty was overcome by the threat of starvation. The members of the group had to cooperate in order to survive. This environment pressure does not exist in an advanced community. There is no social obligation to work together for survival. This exposes that society to a lot of dangers because it is always assumed that there will be enough workers in the various occupations to perform the jobs that must be done. This danger is faced in advanced societies on a daily basis.

There have only been three ways found to guard against this danger. Tradition is one way. This is a manner of organizing society so all tasks are performed. Tradition means that certain functions are passed on from one generation to the next based on custom and usage. This means that once a pattern is formed, it is preserved by the father passing it on to his sons. This was a function of religion in early Egypt and caste in India. Another way of solving the problem is through the use of authority. This means assigning tasks by fiat to ensure that all necessary tasks are performed. This was the function of economic planning in the Soviet economy. They made sure that everything that had to be done was done through the use of fiat and planning.

Handling this coordination problem by tradition or by authority meant that there was no need for the field of economics. Economics came into existence as a result of the third way of dealing with the survival problem and that was by letting everyone do what they wanted within a prevailing framework. This is what is known as the market system and this system functioned by everyone doing what was in their own best financial interests. This system functioned on the basis of financial gain since everybody did what was most financially rewarding. There was no tradition to run the system and there was no entity in a position of authority to direct the system. There were no guarantees that all of the tasks would be performed or that there would be people to perform the tasks. Each individual acted in his own best interests.

Yet the system worked for some reason. All of the necessary tasks were being performed and this is what economists came into being trying to explain. This was the market system that didn't exist before which is why there were no economists trying to explain the system. As societies gradually let go of tradition and command and evolved into market systems as they grew, the system took care of itself and provided for what needed to be done. This was a revolution of sorts that was far important that the

French, American or Russian revolutions in its effect on society. To understand why, one must look back in time.

Heilbroner then looks at the traveling merchant fairs in France in 1305. A variety of goods is offered for sale in tents at these fairs and many of the goods come from different countries. Not only is the local population learning about new goods, they are also learning a new vocabulary from the fair merchants. Transactions are written out by hand. The next place in history looked at is Germany in 1550. A traveling merchant is returning to his home after attending thirty fairs. In addition to paying tolls and duties as he travels, he is also confronted with different units of measures in the different localities. Nothing is uniform. The next stop in history is Boston in 1639 where a preacher of the gospel is charging an extraordinary amount and his standing before a court that is looking into excommunicating him for his crime. Eventually, the court only fines him. The minister of Boston claims that it is wrong to seek riches for riches sake. Returning to England, there is a trading company called the Merchant Adventurers Company that draws up rules for merchants when it writes it articles of incorporation. The same sort of things occurs in France in the weaving industry with the required number of threads being stated.

In all of the above cases, there is no system based on personal gain in existence and the economic and social worlds are not yet separate. The political, social and religious are still tangled up with everyday affairs. The separation only occurs after a struggle. It has always been believed that the profit motive was present and would dominate man's behavior but profit for gain's sake along is a phenomenon of modern man. It is not basic to all societies. What was observed by many was that higher wages lead to more leisure time as more workers take off work. Workers don't work to improve their status in life; they work to cover their day to day expenses, so anything beyond that they didn't need so they would take off work. There were problems with greed throughout history but never problems where a society as a whole aspired for more. Everything was geared toward maintaining their current level in life. Most people didn't want to aspire to higher levels: they wanted to be left alone. Work and money were not objects or means to use to attain an end.

Markets and the market system are not the same thing. Markets have been around since ancient times and they allow for the trading of goods and services. But the market system is more than this. The market system is the whole mechanism that sustains the entire society. It is everything that goes into the process of the exchange of goods. Part of the reason why is that the factors of production, land, labor and capital, didn't yet exist as agents of production. Land wasn't used for purposes of rent and was not bought and sold for profit. Land was basically a part of social life and the basic administrative unit of society for military and judicial purposes. The necessary labor market also did not exist. There were serfs, apprentices, slaves and journeymen who worked but did not enter a formal labor market were labor services were bought and sold. There were also no markets for capital. There was private wealth. There was no market system because society had even conceived of the parts of a market system, meaning the factors of production and everything was done by custom and tradition.

In this kind of society there was no need for political economy or to see what made the economy function; it was all based on custom and tradition. There was no need for laws of supply and demand or value and cost. There was nothing for the economist to analyze at this time. By the year 1666, the market mechanism existed in France where an entity in the weaving industry was trying out a new innovation. Most innovations done without consent were greeted with fines. Eventually the market system evolved with its necessary factors of production, land, labor and capital. In England the class of paupers and their fear of debtor's prison led to the creation of a labor class that would go where ever the work was rather than face being a pauper.

One of the factors bringing about the economic changes was the existence of foreign exploration as the quest for a trade route to the East was sought. These resulted in treasures and riches from the East flowing into Europe. In addition, the inquiring spirit of the Italian Renaissance brought an end to the religiousness of the population. Protestantism made its appearance and views toward the accumulation of wealth began to change. Eventually, capitalism came into being. "No mistake about it, the travail was over and the market system had been born. The problem of survival was henceforth to be solved neither by custom nor by command, but by the free action of profit-seeking men bound together only by the market itself. The system was to be called capitalism. And the idea of gain which underlay it was to become so firmly rooted that men would soon vigorously affirm that it was an eternal and omnipresent part of human nature" (Chapter 2, pg. 38).

The Wonderful World of Adam Smith

The Wonderful World of Adam Smith Summary and Analysis

Adam Smith was on the faculty of the University of Glasgow and was one of the eighteenth century's foremost thinkers. A lecturer in the area of Moral Philosophy, Smith attracted people from all over the United Kingdom who came to listen to his lectures. Moral Philosophy included Natural Theology, Ethics, Jurisprudence and Political Economy. Natural Theology is concerned with finding some reason for the cosmos. There were basically two social classes in the England of this time; the upper class and the lower class. Anyone who was not in the upper class had to struggle to survive.

The Oxford educated thinker was born in Kirkcaldy, Scotland in 1723. When he was twenty-eight he assumed a chair at the University of Glasgow in Logic and then in Moral Philosophy. He was a bit of a non-conformist there in that he was a friend of David Hume and refused to hold prayer sessions before class. He was made Dean in 1758. His first book, The Theory of Moral Sentiments, was published in 1759. In it Smith asks how man, acting in his own best interests, can form moral judgments that do not seem to be selfish. He left his university position to become a private tutor and traveled through France and Switzerland. He began to work on a book based on his lectures at Glasgow. It would take Smith twelve years to finish The Wealth of Nations.

While traveling, Smith met with the foremost thinkers of the time, men like Voltaire and Quesnay. Quesnay, a physician, was also a writer on economics and had written the Tableau Economique in which he claimed that wealth came from gold and silver. Quesnay's economics was knows as Physiocracy and was based on true wealth only being created in agriculture. Wealth was not created in manufacturing and industry; it was just altered. He failed to recognize the wealth creating ability of labor. This piece of the picture was supplied by Smith. When his tour of Europe ended, Smith returned to London and Kirkcaldy. He became friends with Dr. Samuel Johnson and Benjamin Franklin. He published The Wealth of Nations in 1776.

Smith drew on all of the great thinkers of the day in his book, Locke, Petty, Hume, Turgot and others. His book is not a textbook but a doctrine of the thinking of the day. He is trying to explain what factors determine the wealth that nations have. Where does this wealth come from and how? Wealth, for Smith, is defined in terms of consumption or the goods that people consume and Smith wants to know how to promote the wealth. "And wealth, to Adam Smith, consists of the goods that all the people of society consume; note all—this is a democratic, and hence radical, philosophy of wealth. Gone is the notion of gold, treasures, kingly hoards; gone the prerogatives of merchants or farmers or working guilds. We are in the modern world, where the flow of goods and services consumed by everyone constitutes the ultimate aim and end of economic life" (Chapter 3, pg. 53).

Smith focuses on two themes in The Wealth of Nations. First, what is it that makes a society hold together and function? He again points out that all entities are acting in their own best interests but end up doing what is best for the group without any planning or any authority figure directing the activities. How is it that society manages to accomplish the performance of all of the tasks that need to be done? Smith formulates his "invisible hand" theory in response to this question. Each individual acting in his own best interests is actually doing what is best for the group. Smith's second point has to do with the evolution of society or what he calls the system of natural liberty of commercial capitalism. Smith is basically concerned with how the mechanism of society come into being and how they work. These laws of how the mechanism functions are basic not only to Adam Smith but also to Karl Marx.

Smith basically looks at the role of self-interest and its role in markets and determines that it is the forces of competition that make the market function. He uses gloves and shoes as an example of what he means. If people want more gloves, they buy fewer shoes and more gloves. This results in fewer resources, including labor, being used in the shoe industry, and more resources being used in the glove industry. The shoe industry contracts due to falling prices and profits and the glove industry expands due to rising prices and profits which is what society wanted. Adjustments in both industries occur automatically without any entity directing the changes. Adjustments will take place automatically whenever anything based on money, like wages or profits, are out of line in an industry. An industry with higher than normal wages will attract workers until the wage level returns to normal levels as factors or production go where they earn the best return.

Smith explains why prices are close to costs and how society causes the goods it wants to be produced. He also shows why high prices do not last for long and why incomes tend to be similar for the same kind of work. All of this happens automatically in the marketplace based on the role of self-interest, which causes the market to function in an orderly manner. The individual can do whatever he wants in the marketplace but if what he wants is not what society wants, he faces economic ruin.

Adam Smith is fascinated by the division of labor in the production process and how it contributes to gains in productivity. Each worker does one little step in the production process, becomes efficient at it, and if this is done as the basis of every work, increases the output of the production process. As for what leads the market system to higher levels of production, Smith looks at the Law of Accumulation. The capitalist accumulation, when invested in machinery and equipment, results in higher level of output. The capitalist, in his drive for profit, will keep investing in machinery and equipment which will increase the productive capability of the worker in order to make more profit. What stops the profits from being eaten away in the process? Smith proposes the Law of Population to solve this problem. Higher wages will call forth more workers because higher wages result in better living conditions and lower mortality figures. The population will increase when there are wages to support a larger population, which will feed the accumulation process as the capitalists keeps investing in more productive capability. The preferences of the consumers are what feeds the whole system.

Smith was a firm believer in laissez-faire, or leave the market alone. He did not believe in any kind of government interference in the market place. The market would work to solve society's problems and to provide for its needs if the market was left alone and not tampered with. This was used as an argument by opponents of humanitarian legislation.

The Gloomy Presentiments of Parson Malthus and David Ricardo

The Gloomy Presentiments of Parson Malthus and David Ricardo Summary and Analysis

Eighteenth century England felt that its population was decreasing. There was not any census information at this time since the first census was not until 1801. They thought the population to be somewhere around five and one half million people and it was not expected to double for approximately six hundred years. Another researcher, Dr. Richard Price felt that the population had declined by 30% and this led to the introduction of a poor-relief bill which encouraged people to have children by giving them allowances.

Reverend Thomas Robert Malthus was not favorably inclined towards the state of the population. Malthus was having an argument with his father about the size of the population and its affect on economic welfare when he wrote down some of his views. His father was impressed and said he should publish his views, which the younger Malthus did. In 1798 he published An Essay on the Principle of Population as it Affects the Future Improvement of Society. This fifty thousand word work did not comfort anyone. "For what the essay on population said as that there was a tendency in nature for population to outstrip all possible means of subsistence. Far from ascending to an ever higher level, society was caught in a helpless trap in which the human reproductive urge would inevitably shove humanity to the sheer brink of the precipice of existence. Instead of being headed for Utopia, the human lot was forever condemned to a losing struggle between ravenous and multiplying mouths and the eternally insufficient stock of Nature's cupboard, however diligently that cupboard might be searched" (Chapter 4, pg. 78). In other words, the size of the population is limited by the food supply and this functions to keep people at the subsistence level. This essay earned economics the nickname of the dismal science.

At this time, David Ricardo was studying the economic situation also. He would also portray a different picture than Adam Smith did, even though it would not be as dismal as the picture painted by Malthus. Ricardo viewed society as a place where certain groups got ahead and certain ones did not. Not everyone moved at the same pace and since the publication of The Wealth of Nations, forty years before, England had two strong classes emerge; an industrial class and an agricultural class.

Land holders made their money growing corn and other crops on their lands. The higher the prices were, the higher their agricultural profits and this led to high rents. But when food prices became too high, merchants began to import grains which did not make the landlords happy. Since the landlords sat in Parliament, they legislated against grain imports. These were the famous Corn Laws which results in duties on grain imports and they remained in effect for the next thirty years. This basically kept the lower priced grain imports out of the British market. In 1813, due to bad crops and war, the price of grain was at famine levels. There was a debate about what course of action to follow. Parliament decided to raise the duty which infuriated the industrialists who would have to pay higher wages to the workers and the workers would receive the same amount of bread no matter what the price level. To Ricardo, the landholding class was the only class in English society which could benefit because of its hold on grain prices. This class would always be in opposition to other classes in society.

Both Malthus and Ricardo painted dreary pictures of the situation. Malthus worked in academia and Ricardo owned his own business. It is Ricardo who became quite wealthy during his career. Malthus was more interested in the practical aspects of economics and defended the landowner. Ricardo was more interested in theory and did not favor the landowner. In spite of their numerous differences, the two were good friends. Malthus continued to work on his theory of population and the food supply and assumed that humans could double their number every twenty-five years. Land cannot multiply like people can. The supply of land is fixed. Eventually, the number of people exceeds the amount of land and food and the birth rate increases at a faster rate than the rate of food production. By the 1970s, the evidence indicated that the population growth was slowing. Malthus' fears have not been proven out although there is famine and starvation in Africa where the population growth is high.

Ricardo viewed the growing population as putting demands on land, but farmers were already using the best land, so any further land that is used is not as productive. This means that costs are higher as grain production expands and the result is higher prices and rents. Labor will require higher wages to cover the higher cost of subsistence. As this takes place, it is the capitalist that feels the squeeze as his income share falls. Ricardo was against the Corn Laws and in favor of free trade, which meant trade without duties on grain imports. Ricardo, like Malthus, was concerned about gluts in production. This was usually the result of some event and to Ricardo the idea of a general glut was not possible. He found support for this belief in Jean-Baptiste Say, the formulator of Say's Law, which states that supply creates its own demand. Ricardo's analysis became the basis for the theory of rent and for the theory of comparative advantage, the basis of international trade theory.

The world that had looked so good and optimistic to Adam Smith looked dreary and pessimistic to Malthus and Ricardo.

The Visions of the Utopian Socialists

The Visions of the Utopian Socialists Summary and Analysis

The early days of the industrial revolution resulted in workplace abuse, especially with children. Sixteen hour workdays were commonplace in most factories, even for children. Machinery that displaced workers caused attacks on factories and riots by the displaced workers. Outside of Glasgow in Scotland was the community of New Lanark, visited by celebrities from all over the world. This was a model community. There were no children under the age of ten or eleven working in the factory. All workers had homes in neat rows and there was no garbage in the streets. The smaller children were cared for in the schoolhouse where learning for all ages took place. New Lanark was a profitable community run by Robert Owen, one of the group of economic thinkers known as the Utopian Socialists.

Owen's career began in Manchester when he went to work at a textile mill. He demanded an exorbitant amount of money but he presented himself so well that he was hired at the age of twenty. Within several years, he bought a set of mills in New Lanark. He changed the New Lanark community into a model of his dreams based on Utopian Socialism and within ten years it was world famous and Owen became wealthy. The mills were very prosperous until the end of the Napoleonic Wars where the economy suffered from general gluts, or periods of overproduction. A committee from The Dukes of York and Kent visited Owen looking for advice and found Owen with a plan to mitigate the problem of poverty. Owen's idea was based on making the poor productive in Villages of Cooperation where eight to twelve hundred people would work on a farm-factory unit. These would be well kept communities with housing and well maintained grounds.

Since Owen's idea was totally contrary to the doctrine of laissez-faire, the committee did not accept his recommendations, but he kept presenting his ideas in Parliament, looking for funding. He eventually sold his interest in New Lanark and set about to build his model of the Village of Cooperation in Indiana. Located in Posey County, the village was known as New Harmony, and it eventually failed. Owen found he could not create a full-blown utopia. Owen eventually sold the land and returned to England, where labor unions were forming and the working class was familiar with his theories and beliefs and worker cooperatives based on his beliefs were being formed. Most of these cooperatives failed.

Owen became involved in the labor movement forming the Grand National Moral Union of the Productive and Useful Classes, later shortened to the Grand National Consolidated Trade Union and finally to the Grand National. This began the British labor movement in 1833. The Grand National was involved in more than just working conditions; it was also calling for social change and had more than half a million members. One of the goals of the Grand National was the establishment of Villages of

Cooperation. The time was not right for a national union in England at the time and the Grand National Union died within two years. This was the last big movement that Owen was involved in. He died in 1858 at the age of eighty-seven.

Count Henri de Rouvroy de Saint-Simone was another Utopian Socialist of this time. An aristocrat and descendant of Charlemagne, he was born in 1760. Saint-Simone was a firm believer in democracy and fought in the American Revolution and returned to France in time for the French Revolution. While in prison, he claims that Charlemagne appeared to him, telling him to become a philosopher so he obtains his release from prison and begins his quest for knowledge. His writings and beliefs somehow inspire a sect of followers that form an industrial religion that grew to have branches in England and Germany.

The religion was based on the belief that man must work in order to share in the output of society. He explains his point in terms of what would happen if France lost certain people. It would not hurt if they lost the nobility but it would hurt the country if France lost her workers. If that is the case, then it is the workers or les industriels, who are entitled to the greatest amount of society's output. The ones who contribute the least, or the nobility, are entitled to the smallest amount of rewards. Saint-Simone points out that the opposite is true, with the workers receiving the smallest amount. An individual's share of the output should be based on his contribution to the production of that output. His followers later proposed an end to private property.

Charles Fourier is classified as a Utopian Socialist but is also a fantasizer. The son of a tradesman he believed that the Earth was characterized by chaos and unhappiness and was in need of reorganization. Fourier had a proposal for the reorganization. People would live in hotel-like accommodations where there would be first, second and third class accommodations, each a different cost. They could choose their level of privacy. Around the hotel would be farms and industrial places where the people would work, and everyone, even the children, would work a few hours a day doing what they like to do. The gains would be communal profits estimated to be thirty percent, with five twelfths of the surplus going to labor, four twelfths to capital and the remainder to what he calls ability, which is a form of entrepreneurial ability. These units were called phalansteries and they reached a high of forty during the movement.

There were many utopian communities formed in Europe and the United States. Some lasted until the 1930s but most were short-lived. These utopian societies and communities were different than the earlier forms because of their desire for economic reforms. John Stuart Mill was another of the thinkers of this time period. He was raised to be a scholar, having been taught the classical languages as a child. He was raised as a student without any holidays. His book was written when he was in his forties and called Principles of Political Economy. "The book is a total survey of the field: it takes up rent and wage and price and taxes, and retreads the paths that had been first mapped by Smith and Malthus and Ricardo. But it is far more than a mere updating of doctrines that had by now received the stamp of virtual dogma. It goes on to make a discovery of its own, a discovery that Mill believed to be of monumental importance. Like so many great insights, the discovery was very simple. It consisted in pointing out that the true province of economic law was production and not distribution" (Chapter 5, pg. 129).

Distribution is dependent on the rules of society: production is dependent on nature. Rules can be changed, nature cannot. Mill emphasized production as the focal point of economics and looked at the various forms of communism and utopian socialism. Mill broke with most of the major thinkers of the past in placing the emphasis on production and not on distribution. He also was in favor of social change. Mill felt that the population could be educated about the dangers of the Malthusian predictions and that this would take the pressure off wages. In Mill's model, wages would rise as a result of accumulation of capital and eventually the accumulation process would come to an end. Capitalism then enters the stage that Mill calls benign socialism. This is a stage where man is concerned with social problems like justice and liberty, not just economic issues. Workers' cooperatives could come into being since society would not allow the capitalist and landowners to reap unnecessary profits. There would be a gradual disappearance of capitalism as workers bought out their former employers.

Mill's views were slightly socialist but not enough to offend people. Mill was accepted basically because of the mildness of his views. He supported workers cooperatives and the taxation of inheritance and rents. He served in Parliament where he was a defender of human rights.

The Inexorable System of Karl Marx

The Inexorable System of Karl Marx Summary and Analysis

The Europe still mulling over John Stuart Mill and the others was hit with the analysis of Karl Marx—a call to revolution. The Communist Manifesto first appeared in 1848 and warned of a Europe haunted by the specter of communism. It is a fact that there were problems all over Europe at this time. There were riots, and resigning monarchs, and mobs seizing control of cities. The Manifesto called for the violent overthrow of the existing regimes, telling the workers that they have nothing to lose. The class that had something to fear was the ruling class and they were worrying. The workers facing despair in most countries, even with all of the problems, still kept their rulers and most of their policies.

The Communist League, which published the Manifesto, was not concerned that the social unrest resulted in little change. The Manifesto was a plan for the future and had been written by Karl Marx and Friedrich Engels. Marx, the author of Capital, provides an analysis of capitalism and concludes that capitalism must come to an end based on history. The two met in Paris in 1844. Engels was the son of a Rhineland manufacturer who sent him to study the export business in Bremen. He was easily attracted to the idea of communism because of his rejection of private property. Engels entered his father's textile business in Manchester and explored the living conditions of the workers there. He published his impressions in The Condition of the Working Class in England in 1844. Engels was writing articles when he met Karl Marx, who was editing a magazine in Paris. Marx was a German, the son of a Jewish family that converted to Christianity to help the father's law practice. Marx was influenced by the writings of Hegel with his dialectic triad during his studies at universities at Bonn and Berlin. Every idea or concept, called a thesis, had its opposite called an antithesis. The two would combine and form a synthesis which also contained an internal contradiction, and this set up another round of the dialectical process. Marx became a journalist and was editing a Paris radical magazine when he first met Engels. This is where he became interested in economics and politics.

Marx and Engels applied the dialectical process to history and came up with the process called dialectical materialism. Social orders are based on production and the exchange of products. The distribution of output is based on what product is produced, how it is produced and exchanged. Changes in social order come about from changes in the mode of production and distribution and the change is an economic change not a philosophic change. When these changes occur, new social classes come into being and replace the old ones which is a source of conflict as the division of wealth changes. Marx felt that capitalism would destroy itself because capitalism needed planning and the capitalist wanted freedom. Without plans, capitalism was disorganized. A second premise of Marx is that capitalism created its own successor or laid the framework for socialism. The flaws in the capitalistic system would cause people to do things and act in such a way that they laid the basis for socialism.

Marx and his wife moved to London in 1849. Before that they lived in Brussels, where The Communist Manifesto was written. Marx and his family were living off money from Engels in London while Marx wrote articles. He was also working on Capital at this time. The Manifesto was the platform for the Communist League but the League went out of existence in 1848 and was followed by the International Workingmen's Association, which lasted for five years. Capital was the four volume work that was an analysis of capitalism and it took Marx eighteen years to write it. Marx is concerned partly with the determination of value. In a world of perfect capitalism, all products would sell at the proper price, its value, or the amount of labor it contains. The worker provides his labor-power to the capitalist in a market for which he receives wages. The capitalist, in order to survive, must engage in accumulation.

The worker is paid the amount of wages necessary to keep him alive or he is paid his subsistence wage. However, the worker creates an amount of value that is in excess of his subsistence. This excess is referred to as surplus value and it is the source of profit. This is the amount that accrues to the capitalist who does nothing to earn it. When confronted with rising wages, the capitalist will eventually introduce labor saving machinery into the production process. He will use more machines and fewer humans. The displaced workers join the ranks of the Industrial Reserve Army which function to keep wages at their subsistence level. Only live labor can create value in the Marxian system so the more machinery the capitalist has, the lower the ratio of living labor to total output. This results in less surplus value and lower profits rates. There are fewer workers working so there is less output purchased as a crisis of overproduction takes place. Workers take jobs at lower wages and capitalists buy used machinery at less than true value, and surplus eventually appears until the next crisis. Eventually conditions worsen as exploitation deepens and eventually there is a revolution.

Marx had little to say about what followed the revolution. There was no plan for a society that followed capitalism. The society would be classless with the society owning the means of production. Socialism would be a transition period followed by pure communism. Marx's theory of valuation is called the Labor Theory of Value. Marx and Engels thought the revolution would occur in an advanced industrial economy like Germany.

The Victorian World and the Underworld of Economics

The Victorian World and the Underworld of Economics Summary and Analysis

After the publication of The Communist Manifesto, many of the Marxist concepts were proven. Businesses grew bigger and bigger and there was more and more instability within the system, such as depressions and inflations. However, Marx had predicted the increasing misery of the proletariat. This meant that the living conditions of the workers would deteriorate to the point where they would rebel, and this did not happen. There were other non-Marxian views that appeared at this time. One was Francis Ysidro Edgeworth, who was a graduate of Oxford who liked mathematics. Edgeworth believed that every person tried to maximize pleasure or was a pleasure machine and he tried to present this view in terms of mathematics. Each pleasure machine or human would try to obtain the most pleasure he could. Edgeworth believed that each man acted in his own self interest and did what was best for himself.

Critics pointed to trade unions as evidence of the fact that man did not always act on his own. Trade unions represented situations where men acted together in order to obtain an objective. Edgeworth responded that trade union gains were a short-run phenomenon. In the long-run they would lose. Edgeworth used calculus to support his point. There were other economists of this period that were also using math in support of their views. Von Thunen felt that the just wage rate was given by the square root of the product of "a" and "p" but the book does not explain what "a" and "p" are. Leon Walras felt that math could be used to determine the equilibrium price of a good and that this could be done for every good in the economy, even if it required millions of equations. Stanley Jevrons authored a Calculus of Pleasure and Pain in which he presented his theory of economics.

At this time, many of these thinkers were known as the underground of economics, and the field was now called economics and not political economy. The world of economics was subject to the ridicule of Frederic Bastiat. "Look at this madhouse of a world, says Bastiat. It goes to enormous efforts to tunnel underneath a mountain in order to connect two countries. And then what does it do? Having labored mightily to facilitate the interchange of goods, it sets up customs guards on both sides of the mountain and makes it as difficult as possible for merchandise to travel through the tunnel!" (Chapter 7, pg. 179). He wrote a book called Economic Sophisms in which he ridiculed economics and the practices of various nations. Bastiat was a firm believer in free trade and organized a free trade association in Paris that last eighteen months. He died in Pisa, Italy in 1850 while working on a book.

Another member of this underworld was the American Henry George, the believer in phrenology. George took issue with the concept of rent, which he felt enriched landholders at the expense of capitalists. George proposed a tax on land that would be big enough to absorb all rents. This was called the single tax and it would provide all the revenues that the government needed so there would not be any other taxes. His views were published in his book Progress and Poverty.

This time also marked the beginning of European imperialism as England, France, Germany, Belgium and Portugal were acquiring colonies in other parts of the world. New possessions affected trade and suggested to others that capitalism had a tendency to lead to war. During this period John A. Hobson wrote a book with A.F. Mummery called The Physiology of Industry in which they proposed that savings was the cause of economic problems since it could result in unemployment due to the lack of spending. This view got Hobson labeled as a heretic so he turned his attention to South Africa.

Having spent some time in South Africa, he returned to England and wrote the book Imperialism. Hobson feels that the world could be destroyed by imperialism as a form of capitalism. Capitalism contains a flaw that results in imperialistic actions necessary for survival. The unequal distribution of income that results from capitalism is what causes the problems. A society must consume all that it produces if it is to survive. The poor cannot afford it and the rich cannot physically consume all that is produced which means the rich have to save some of their income. This means that they have to find a way to put their savings to work. They have invest their money and this leads to investment overseas. All capitalistic countries have to do this in order to survive.

This view fits right in with the views of Lenin and the Soviets who view imperialism as a high state of capitalism. But eventually many of the capitalist countries found imperialism to be to expensive to maintain. All countries are looking for markets and cheap raw material sources when they acquire colonies. As imperialism waned or changed, multinational corporations came into being. Instead of acquiring colonies, the big corporations expand their operations into foreign markets. They combine their high technology with cheap foreign labor. Multinationals are referred to as the new imperialism.

Alfred Marshall was another economist of the Victorian era. He authored the Principles of Economics in which he combined mathematics with his economics with all of the proofs presented in footnotes. Marshall also emphasized the importance of equilibrium. His 1890 publication was highly successful.

The Savage Society of Thorstein Veblen

The Savage Society of Thorstein Veblen Summary and Analysis

By the early 1900s, Europe and America, while very similar, still had their differences. Europe still carried the vestiges of feudalism, while America shared none of that history. The American needed only money to enter the upper class. This was the era of the Goulds and Rockefellers and all of their business deals which earned them millions of dollars in profits. "Official economics, in a word, was apologist and unperceptive; it turned its eye away from the excesses and exuberance that were the very essence of the American scene and painted instead a stereotype in formal lines and lusterless color. While it did not lack honesty or courage or intellectual competence, it suffered from what Malthus had once called 'the insensible bias of situation and interest.' The American economists were too much bound up in the current of these enthusiastic times to back away from their subject and view it coolly and clearly and at a distance" (Chapter 8, pg. 218). This is the situation Thorstein Veblen analyzed.

Veblen, an American born in 1857 to a farmer, was raised on the frontier in Minnesota. He was educated at Carleton College in Minnesota where he was considered a misfit by his professor, John Bates Clark. He worked for Lawrence Laughlin at Cornell and followed him to the University of Chicago. His book, The Theory of the Leisure Class, was published while he was teaching there. To many the book just appeared to be a satirical story of the upper, or leisure, class but Veblen also attacked the rich as he looked for what he called the economic man. Veblen notices that society admires its leisure class. People look up to those who have attained this status. The activities of the leisure class were noble and admired whereas the activities of the laborers were frowned upon.

Veblen describes human nature as being savage and feels that the life of modern society contains the heritage of the past. The leisure class seizes goods without working for them through its status as upper class and its goal is the accumulation of money. This is the behavior that others seek to imitate. This book did not earn Veblen a reputation as an economist. He earned a reputation as a satirist. Economists were not sure how to receive Veblen. Veblen published The Theory of Business Enterprise in 1904 in which he presents the capitalist as the saboteur of capitalism. Machines were used to produce goods and they were produced by engineers. If the machine functioned well, why did they need the capitalist? The only way the businessman would be needed was if there were breakdowns and problems in the flow of output so the businessman had to create these problems. It is almost as if the capitalist has to create a place for himself. Veblen went on to write other books, The Engineers and the Price System and Absentee Ownership and Business Enterprise. Veblen died in 1929.

The Heresies of John Maynard Keynes

The Heresies of John Maynard Keynes Summary and Analysis

In October, 1929, the stock market crash occurred. The result was, eventually, the Great Depression which resulted in massive unemployment and breadlines. Economic conditions kept worsening for the next several years. The nation began to look at the theories of John Maynard Keynes, the son of economist John Neville Keynes. Keynes received an appointment to a Royal Commission studying Indian currency problems after he published his first book, Indian Currency and Finance. Keynes serves at the Peace Conference at the end of World War I. He does not have a powerful position, but he is in attendance and feels that the negotiated peace will bring nothing but problems. He is so opposed to the peace terms and the huge German reparations payments that he resigns and writes The Economic Consequences of the Peace. He went on to write other books, as well as newspaper columns and served as the editor of the Economic Journal for more than thirty years. In 1923, he published his book, Tract on Monetary Reform. His theory was based on the idea that the level of economic activity in an economy is determined by the level of spending and the level of spending is affect by fiscal policy, or changing the level of government spending or taxation. The level of economic activity is what results in business cycles, the alternating periods of prosperity and depression or boom and bust which are accompanied by nervous hysteria. Keynes wanted to know what caused this.

He begins by defining what prosperity and depression are and defines them in terms of incomes. Prosperity occurs when individuals earn high incomes; depression occurs when individuals earn low incomes. Most income is spent and this exchange of money keeps the economy active. The part of income that is not spent is income that is saved. This is money that is removed from the income expenditures stream and represents a break in the incomes flow. Most funds that are saved are used for investment purposes by investors or banks when businesses want to expand and this contributes to the level of economic activity. During depressions, businesses do not want to expand as they do during period of prosperity. "And therein lies the possibility of depression. If our savings do not become invested by expanding business firms, our incomes must decline. We should be in the same spiral of contraction as if we had frozen our savings by hoarding them" (Chapter 9, pg. 268).

Whenever the amount businesses want to invest is not equal to the amount of savings households want to save, there are economic problems. When investment is less than savings, there is depression because there is not enough spending to take the national output off of the market. What baffled Keynes was how an economy could stay in a depression. This is one of the reasons he decided his Treatise on Money was incorrect. The interest rate is the price of savings or the rate paid for investment funds. Lower interest rates should result in increased investment spending on the part of businesses, but this did not happen in the Great Depression. Keynes answered his questions by thinking that as economic conditions worsened and as the interest fell to low rates, the amount of savings would dry up. The saver will not save money no matter how much interest he is paid.

Keynes was not a believer in laissez-faire economics. He felt the business cycles had to be countered by government intervention, or fiscal policy. The government had to increase expenditures and/or lower taxes to stimulate the economy to bring it out of depression and it had to lower expenditures and/or raise taxes to solve the problem of inflation. During the World War II years, Keynes was involved in the Bretton Woods conference. This was a conference that laid the framework for a new post-war monetary system to try to alleviate some of the problems that would occur in the world of international trade. Keynes died in 1946, after the conclusion of the conference.

The Contradictions of Joseph Schumpeter

The Contradictions of Joseph Schumpeter Summary and Analysis

Joseph Schumpeter was an Austrian economist, educated at the University of Vienna. While working for an Egyptian princess, he wrote The Theory of Economic Development which examines how the development process takes place in capitalism. Schumpeter approaches the subject in a unique way; he looks at an economy without any economic growth. There is no growth because there is no accumulation of capital. This economy's circular flow never changes and resource owners are paid the full value of their contribution and the capitalist only receives his wage for management. "That is because any contribution to the value of output that was derived from capital goods they owned would be entirely absorbed by the value of the labor that went into making those goods plus the value of the resources they contained. Thus, exactly as Ricardo or Mill foresaw, in a static economy there is no place for profit!" (Chapter 10, pg. 294).

Schumpeter states that in a static model, like the one described above, the purpose is to describe where profits originate. In Schumpeter's framework, profits occur because the circular flow diagram's flow is altered. An innovation of some sort results in a flow of income that does not come from labor or other resource owners. The innovation results in lower costs and is caused by an individual Schumpeter calls the entrepreneur, even though the profits flow to the owner of the business. Schumpeter uses the depression to test his theories. Profits are caused by innovations and they are missing during the 1930s because of the grim expectations of business. Schumpeter presents his views in his book Business Cycles. In it, he identifies three different kinds of business cycles. There is a short one, a middle one of seven to eleven years and a long one of over fifty years. The latter is associated with major inventions. The Great Depression occurred because all three were at their low point at the same time.

In 1942, another Schumpeter book appears called Capitalism, Socialism and Democracy. Schumpeter talks about plausible capitalism and makes a distinction between economic successes and sociological successes. The capitalist develops a certain mentality and in the end this is what causes capitalism to collapse.

Behind the Worldly Philosophy

Behind the Worldly Philosophy Summary and Analysis

Most of the book as been concerned with presenting the worldly philosopher's theories on an individual basis. The last chapter is concerned with them in a collective sense. How successful were they in determining how the role of order and meaning functions within the context of social history? They all tried to predict trends into the future. Many of these so-called predictions take the form of carrying a logical statement to its conclusion. They do not have sections where they say "I predict ...." It is probably a little more precise to say that they uncover trends which take place. This occurs because of regularities in the behavior of individuals in society. These are things like the propensities to save and spend. Also, it is believed that economic behavior causes the influence for change in society. These might be beliefs in long-run trends or that economic instability problems will be solved.

Many of the faults of the earlier economists had to do with their not allowing for technological change of the kind which occurred or the impact these changes would have. For example, they did not all see technology leading to unemployment as labor is replaced by machines. Most believe that machines will augment labor and enhance labor's productivity. It was Marx who talked about machines replacing labor. Not only can there be changes in technology, there can also be changes in social factors not caused by class struggle. The economist can 'see' only as far as technology and the prevailing institutional factors allow him to see. Economics changes over time just as society changes, but the theory is always trying to explain what is happening with the economy. Knowing how something is functioning allows the economist to control variables or manipulate them to fix something when it is wrong. The economy can be steered toward various goals and objectives in this way.

Not all economists are worldly philosophers. Not all formulate new theories or schools of thought within economics. Even with all of the economic issues that confront society, most economists are not classified as worldly philosophers. More and more, political decisions determine economic activity. "That we will again have a worldly philosophy seems unlikely. The setting of modern life does not accommodate the kinds of prognostications expounded by the great economists. We may have great visionaries, great builders of systems, but these systems and visions are not likely to have the powerful simplicity of the worldly philosophers'. Their narratives were written during a time when the economic workings of society were thrust into a historic centrality that they are not likely to occupy again, even if we opt for the market over planning. And so we must in all likelihood write finis to the worldly philosophy. There will be no more social dramatists who dare to base such large-scale narratives on so narrow a motivational base" (Chapter 10, pg. 324).

History is basically the history of the changes that takes place in thinking and economics is basically a theory of historical movement.

Characters

John Maynard Keynes

Keynes was a depression era economist who is credited with being the father of modern Macroeconomics. Keynes, the son of economist John Neville Keynes, was born in 1883 and educated at Eton, where he received a scholarship. He worked in the India Office in 1907 for two years. He wrote a book, Indian Currency and Finance, and this earned him an appointment on a Royal Commission investigating the Indian currency problem. He went on to Cambridge and was editor of the Economic Journal, a position he held for thirty-three years. He published The Economic Consequences of the Peace after holding a position at the Peace Conference at the end of World War I. Other works published include the 1923 Tract on Monetary Reform, Treatise on Probability, Treatise on Money, and The General Theory of Employment. Keynes was also active in designing the post-World War II international monetary system at Bretton Woods, New Hampshire.

Keynesian theory is a break with the tradition of laissez-faire economics. In the Keynesian model, the level of economic activity is determined by the level of aggregate spending. If there is too much spending, there is inflation. If there is not enough spending, then there is depression. The government has to take appropriate steps to change the level of spending in order to correct for the economy's problems. If the government does not, an economy can become stuck in a depression, no matter how low the interest rate. Savings and investment affected the level of economic activity.

Adam Smith

Adam Smith was a famous thinker of the time and on the faculty of the University of Glasgow. Smith was born in 1723 in Kirkcaldy, Scotland. He left the University to work as a tutor, and wrote his most famous book, The Wealth of Nations, which was published in 1776. This book strongly promoted laissez-faire and the invisible hand concept in explaining how the economy functioned. The market, according to Smith, evolved on the basis of the system of natural liberty with each individual economic agent following his own best interests which worked out to the advantage of the group. Smith was interested in how certain functions were performed in the economy when there was no tradition or command functions to guarantee their performance.

Thomas Robert Malthus

Malthus was a minister who was interested in the size of the population and its affects on economic welfare. He wrote an essay in which he claimed that the size of the population was limited by the size of the food supply. This earned economics the distinction of being known as the dismal science and Malthus spent most of his life in academic research and in teaching. In 1820, he published Principles of Political Economy. Malthus died in 1834.

David Ricardo

David Ricardo was a stockbroker by profession and had an interest in economics. He tried to explain why certain groups in society moved up and down the economic ladder and he found the answer in grain prices and rents. Ricardo had his own business and became quite wealthy. Even though Ricardo was a businessman, he was very interested in the theoretical aspects of economics and authored Principles of Political Economy. Ricardo was responsible for formulating the theory of rent and the theory of comparative advantage, which is the basis for international trade theory. Ricardo died in 1823, remaining friends with Malthus until the end.

Robert Owen

Owen was a Utopian Socialist and the founder and administrator of New Lanark, a model community in Scotland. His career began in a textile mill in Manchester, England at the age of twenty and several years later he bought the establishment at New Lanark, in Scotland. Modeling it on his beliefs in Utopian Socialism, within ten year the community was world famous. He formed the New Harmony utopian cooperative in Indiana and it failed. Returning to England, he became active in the Labor movement forming the Grand National union that promoted social change as well as his Villages of Cooperation. The union lasted for two years. Owen dies in 1858 at the age of eighty-seven.

Count Henri de Rouvroy de Saint-Simone

Saint-Simone was an aristocratic descendent of Charlemagne who was born in 1760. A believer in democracy, he fought in the American Revolution and returned home to France in time for the French Revolution. He became a philosopher, began writing and somehow inspired a sect of followers that became the basis for an industrial religion. Saint-Simone's views were based on the fact that individuals share of society's rewards should be based on contribution. The workers contribute more than the nobility, yet it was the workers who receive the smaller share of the output.

Charles Fourier

Fourier was the son of a tradesman, born in 1772. His theories were based on his fantasies but he believed that chaos and unhappiness characterized the planet and that it was in need of reorganization. His plan for reorganization was based on phalansteries which consisted of a hotel-like unit surrounded by farms and industrial establishments. Everyone would work at what they like to work at and the profits would be divided according to a formula.

John Stuart Mill

Mill was another economic thinker of this time period. Mill wrote his Principles of Political Economy and broke with the traditional thinkers of the time in emphasizing production as the important point of economics. Production was determined more or less by nature and not by society's rules, as distribution was. Mill is best known for his political essay On Liberty and authored several other works during his life. He died in 1873.

Karl Marx

Marx was a philosopher and economic thinker in the nineteenth century. The German scholar co-authored The Communist Manifesto which called for the violent overthrow of the ruling order. He authored Capital which was a multi-volume analysis of capitalism with value being determined by labor. Marx was educated at the universities in Bonn and Berlin where he was influenced greatly by the writings of Hegel. He met Engels when he was editing a radical magazine in Paris. They wrote The Communist Manifesto in 1848 while the Marx family was residing in Brussels. The Marxs then moved to London where they spent the remainder of their lives living in poverty with Marx writing articles and the volumes of Captial.

Friedrich Engels

Engels was co-author of The Communist Manifesto. He was born in Germany to a Rhineland manufacturer who sent him to Bremen to learn the export business. Since he rejected the idea of private property, he was easily attracted to communism. He worked as a stockbroker and helped support the Marxs while they lived in London while Marx wrote Capital.

Henry George

Henry George was one of the Victorian era underground economists. He believed the cause of society's problems lay in rents and felt that the way to solve the problems was to impose a big tax on rents, a tax so large that it would tax away all of the rents. This tax, called the Single Tax, would be the only tax the government would need since it would provide all of the revenues necessary for the financing of government.

Thorstein Veblen

Veblen was an American academic who investigated economic man and the economic system. He wanted to find out why it functioned the way it did. Veblen was born in 1857 to a Minnesota farmer and was educated at Carleton College in Minnesota where he eventually married the college president's daughter. He earned his Ph.D. at Yale in 1884 and worked for Lawrence Laughlin at Cornell and then went with him to the University of Chicago. He published his book, The Theory of the Leisure Class, which attracted the attention of the intelligentsia. His second book, published in 1904, The Theory of Business Enterprise, attracted attention because it portrays capitalism as having to be sabotaged by businessmen. He published two other books during his lifetime, The Engineers and the Price System and Absentee Ownership and Business Enterprise. He also taught at Stanford and the University of Missouri where he wrote The Higher Learning in America. He also worked for the government and wrote articles for a liberal magazine in New York and lectured at the New School for Social Research. He died in 1929, right before the market crash.

Joseph Schumpeter

Schumpeter was born in Austria in 1883. He was educated at the elite Theresianum, a school for the children of aristocrats and at the University of Vienna. He worked as a financial advisor to an Egyptian princess and wrote his first book, The Theory of Economic Development that received so much attention that Schumpeter obtained a professorship in Austria. He worked in government for a brief time following World War I. After several years, he returned to academia, first in Japan, then Germany and finally to Harvard. His views are presented in the several books that he wrote. Business Cycles defines the economy as characterized by three different business cycles of different time periods and all three were at a low during the Great Depression of the 1930s. In Capitalism, Socialism and Democracy, Schumpeter describes plausible capitalism, where there is a distinction between economic success and sociological success. What changes is the attitude or mentality of the capitalist and this results in the end to capitalism. It then leads to Schumpeter's kind of socialism, which he sees as a kind of managerial economy that the bourgeoisie will acquire the skills to run.

Objects/Places

Scotland

The Scotland of the 1700s was home to Adam Smith, who was educated at the University of Glasgow.

England

England is the economy used most often for analysis and examples. England was a society with a wealthy upper class and a poor lower class.

New Lanark

New Lanark was a community in Scotland that was a utopian community visited by celebrities from all over the world. New Lanark was well run and profitable for its owner.

New Harmony

New Harmony, located in Posey County, Indiana, was a model Village of Cooperation community built by Robert Owen.Owen left it after he built it and it eventually failed.

France

France is the country in Europe traveled to by Adam Smith when he worked as a tutor. It is also the birth place of Saint-Simone. Karl Marx worked as a magazine editor in Paris before moving to London.

Germany

Germany was the birthplace of Karl Marx and an advanced industrial country, where Marx predicted the revolution would occur.

Minnesota

Minnesota was the birthplace of Thorstein Veblen who was born to a Minnesota frontier farmer. It is also the location of Carleton College where Veblen was educated.

Bretton Woods

Bretton Woods, New Hampshire was the site of an international conference held in the closing days of World War II. The purpose of the conference was to design the framework for the international monetary system and the system of international trade. The World Bank and the International Monetary Fund were the two organizations formed at this conference to deal with trade and currency problems.

Austria

Austria was the birthplace of Joseph Schumpeter. It is also the site of the University of Vienna where he was educated.

United States

The United States is the site of various actions in the book since many of the economists were educated or taught in the United States. The United States was also the site of the stock market crash of 1929 which began the Great Depression.

Themes

Search for Order

In the early days of capitalism, there was a different social and political framework. Heilbroner begins before there was a market mechanism or a need for the field of economics. Philosophy was concerned with man and man's role in the universe. How did man fit in and what did man fit into? All of the pieces worked in some way so that the whole thing functioned without any direction from anyone. All of the tasks that needed to be done in a society, no matter how disagreeable, were performed without being assigned. In the early days, this was accomplished by tradition, with sons taking over from the fathers. In some societies, like India, it was mandatory through caste. Nobody had to assign these functions to anyone and they were all performed. In other societies based on slave labor, like Egypt, these functions were assigned to slaves.

Societies solved their problems by use of authority or tradition. All of the necessary tasks were performed. It was not until there were societies that did not have their survival based on tradition or authority that people began to notice all of the necessary tasks were still be performed. They began to ask why and how and Adam Smith provided an answer with the invisible hand concept. Each entity acting in his own best interests does what is best for society without any direction or coercion.

The Need to Explain

Another theme that runs through this book is the need to explain on the part of men. Nobody asks Smith to find out why people acting in their own best interest. Smith simply saw that all of the tasks that a society needed for survival were performed. Smith did not get paid to investigate this issue; he was curious and wanted to know. This is basically how the field of economics came into being, as an outgrowth of philosophy. The first questions concerned man's role in the universe and man's relationship to nature. By the time of this book, the questions concerned the functioning of the order in society and man's role in that mechanism.

Throughout history some people have felt a need to question and explain and this is what this book is the result of and what it presents. Each economist felt a need to explain a different aspect of the society that they lived in. For Smith, it was explaining how all of the necessary tasks were performed without tradition or authority. For Malthus, it was explaining the relationship between the size of the population and the size of the food supply. For Keynes, it was studying the effects of the business cycle and what caused business cycles, in order to try to figure out what to do about business cycles. The need to question and explain lies at the bottom of every theory proposed.

Development of the Study of Economics

One of the themes of the book is the development of the field of economics. The field came into being as a result of changes in the social and political order. Various tasks have to be performed in a society in order for that society to survive no matter how undesirable the tasks are. This used to be accomplished by tradition or command. India's caste system is an example of survival based on tradition. Ancient Egypt's slave system or economic planning are examples of survival based on the use of authority. There was no need for a field of economics in these situations. When the social and political order changed and there was no command or tradition, the tasks necessary for survival still were performed. This is where the study of economics came from.

Heilbroner presents each worldly philosopher's views individually. In some places he will compare and contrasts different views or theories, but most of that is left until the last chapter. The reader can see how economics developed as each of the worldly philosophers studied his own area of interest and one led to the other as one built upon the other in terms of agreeing or disagreeing with the other theories. A field that didn't exist, basically the field of economics, came into existence as a result of changes in the social and political order and formed an economy.

Style

Perspective

The author wrote the book while working as a freelance writer while attending Harvard graduate school in economics. He is well qualified to write a book of this nature since he is an economist. His biggest reason for writing was that he needed money at the time. Heilbroner writes in a very readable manner. There is not a lot of theory presented since he picks one or two points for each author and discusses them in everyday language understandable by all audiences. The author spends as much time presenting the life of the worldly philosopher as he does discussing his theories, saving reader from a too dense foray into the economics.

The style of the book makes it very readable for any level of audience. No background in economics is required in order to understand any of the concepts in the book because the concepts are presented as points the worldly philosophers studied. The audience should appreciate Heilbroner's style of writing because he keeps economics painless. The reader does not find himself getting lost in concepts or spending time trying to figure out the economics because the material is not presented in that manner. The reader can learn about various economic concepts and beliefs without knowing that it is economics he is learning.

Heilbroner's intended audience is anyone with an interest in the subject. The reader is not just learning economic theory—he is learning about the lives of the economists and the times they lived in, as well as what their various ideas were.

Tone

The overall mood of the book is objective. The author is a trained researcher and presents the material in that manner. The book is written in the third person and the views that do come through are Heilbroner's views, but he does not force his views on anyone. The author's purpose in writing the book was to show how the field of economics came into being and to introduce the readers to the worldly philosophers, or those who contributed to the development of the field. The mood of the book allows the author to do this without forcing any of the information on the reader.

Heilbroner presents the information in a light manner by setting the scene in terms of the prevailing economic, political and social order of the time and then introducing the worldly philosopher. After providing the biographical background, the reader is introduced to the worldly philosopher's family. Then the reader is introduced to one or more of the viewpoints of the economist. The book is not heavy on theory and is well-balanced, which makes it easy for the reader to read and learn. This may be one of the reasons for the popularity of the book. The reader appreciates the approach taken by Heilbroner because he is not bogged down in economic theory.

Structure

The format of the book is relatively simple. There is a Preface and eleven chapters followed by a Guide to Further Reading, Notes and an Index. The Introduction is the first chapter and is very short but explains how societies changed over the years. The second chapter explains why there was never a need for a field of economics and how the need for the field came into being as a result of a changing political and social order. Economics evolved from philosophy and was known as Political Economy in its early days.

Most of the worldly philosophers have their own chapter: Adam Smith, Karl Marx, Thorstein Veblen, John Maynard Keynes and Joseph Schumpeter. David Ricardo and Daniel Malthus are presented in one chapter and then there are separate chapters for the Utopian Socialists and the Victorian underground economists. The last chapter pulls together the ideas of all of them and looks at economics as a field. This is where their views are compared and contrasted.

This format works well for this book. There is a balance in the material that is presented, not a reliance on dry theory. The format used describes the economy of the time, introduces the worldly philosopher and his family, and focuses on one or two points instead of trying to cram economic theory down the throat of the reader. Heilbroner's approach is highly effective in that he accomplishes what he sets out to do. He writes a book for the non-professional in a style that makes it very readable and understandable for them.

Quotes

"One would think that in a world torn by economic problems, a world that constantly worries about economic affairs and talks of economic issues, the great economists would be as familiar as the great philosophers or statesmen. Instead they are only shadowy figures of the past, and the matters they so passionately debated are regarded with a kind of distant awe. Economics, it is said, is undeniably important, but it is cold and difficult, and best left to those who are at home in abstruse realms of thought," (Chapter 1, p. 14).

"Hence they can be called the worldly philosophers, for they sought to embrace in a scheme of philosophy the most worldly of all of man's activities—his drive for wealth. It is not, perhaps, the most elegant kind of philosophy, but there is no more intriguing or more important one," (Chapter 1, p. 16).

"... in a word, if any of a thousand intertwined tasks of society should fail to get done—industrial life would soon become hopelessly disorganized. Every day the community faces the possibility of breakdown—not from the forces of nature, but from the sheer human unpredictability," (Chapter 2, p. 19).

"But markets, whether they be exchanges between primitive tribes where objects are casually dropped on the ground or the exciting traveling fairs of the Middle Ages, are not the same as the market system. For the market system is not just a means of exchanging goods; it is a mechanism for sustaining and maintaining an entire society," (Chapter 2, p. 27).

"Out of the melee of contradictory rationalizations one thing alone stood clear: man insisted on some sort of intellectual ordering to help him understand the world in which he lived. The harsh and disconcerting economic world loomed ever more important. No wonder Dr. Samuel Johnson himself said, 'There is nothing which requires more to be illustrated by philosophy than trade does.' In a word, the time for the economists had arrived," (Chapter 2, p. 41).

"The Theory was an inquiry into the origin of moral approbation and disapproval. How does it happen that man, who is a creature of self-interest, can form moral judgments in which self-interest seems to be held in abeyance or transmute to a higher plane? Smith held that the answer lay in our ability to put ourselves in the position of a third person, an impartial observer, and in this way to form a sympathetic notion of the objective (as opposed to the selfish) merits of a case," (Chapter 3, p. 47).

"Just as the market regulates both prices and quantities of goods according to the final arbiter of public demand, so it also regulates the incomes of those who cooperate to produce those goods. If profits in one line of business are unduly large, there will be a rush of other businessmen into that field until competition has lowered surpluses. If wages are out of line in one kind of work, there will be a rush of men into the favored occupation until it pays no more than comparable jobs of that degree of skill and training. Conversely, if profits or wages are too low in one trade area, there will be an exodus of capital and labor until the supply is better adjusted to the demand," (Chapter 3, p. 57).

"In retrospect, what is interesting is how harmonious either view of the population problem was with a philosophy that put its faith in natural law, reason, and progress. Was the population declining? Then it should be encouraged to grow, as it 'naturally' would under the benign auspices of the laws that Adam Smith had shown to be the guiding principles of a free market economy. Was the population growing? All to the good, since everyone agreed that a growing population was a national source of wealth. No matter which way one cut the cake, the result was favorable to an optimistic prognosis for society; or to put it differently, there was nothing in the population questions, as it was understood, to shake men's faith in their future," (Chapter 4, pp. 76-77).

"Equally important in confuting Malthus' prediction in the West was its enormous urbanization. On the farm, children can be assets; in the city they are liabilities. Thus economic considerations joined with increasing knowledge of birth control practices to prevent the feared population explosion from taking place," (Chapter 4, pp. 93-49).

"In a sense, Malthus and Ricardo were the last of a generation that pinned its faith on reason, order, and progress. They were no apologists, nor were they defenders of an order of which they disapproved. Rather, they were impartial; they stood away from and above the social flux and with an impersonal eye plotted the direction of its current. And if what they saw was unpleasant—well, they were not to blame for that," (Chapter 4, p. 104).

"Despite is meteoric rise, Owen conceived of himself as a man of ideas rather than as a mere man of action; New Lanark had never been for him an idle exercise of philanthropy. Rather, it was an opportunity to test out theories that he had evolved for the advancement of humanity as a whole. For Owen was convinced that mankind was no better than its environment and that if that environment was changed, a real paradise on earth might be achieved. In New Lanark he could, as it were test his ideas in a laboratory and since they succeeded beyond all measure, there seemed no reason why they should not be given to the world," (Chapter 5, pp. 110-111).

"Weird and fantastic as it seems, the Fourierist idea took some hold, even in that fortress of practicality and common sense, the United States. At one time there were over forty phalansteries in this country, and if one groups together the Owenite communities and the religious movements of various sorts, there were at least one hundred and seventy-eight actual Utopian groups with from fifteen to nine hundred members each," (Chapter 5, p. 124).

"We have seen how Adam Smith, Malthus, and Ricardo elaborated the laws of economic distribution. These laws seem to explain not only how the produce of society tended to be distributed but how it should be distributed. The laws should that profits were evened out and controlled by competition, that wages were always under pressure from population, and that rent accrued to the landlord as society expanded." (Chapter 5, pg. 125)

"But the process of history pays no attention to likes and dislikes. Gradually conditions change, and gradually, but surely, the classes of society are rearranged. Amid turmoil and anguish the division of wealth is altered. And thus history is a pageant of ceaseless struggle between classes to partition social wealth. For as long as the technics of society change, no existing division of wealth is immune from attack," (Chapter 6, pp. 146-147).

"Marx called this layer of unpaid work 'surplus value.' The words do not imply moral indignation. The worker is entitled only to the value of his labor-power. He gets it in full. But meanwhile the capitalist gets the full value of his workers' whole working day, and this is longer than the hours for which he paid. Hence when the capitalist sells his products, he can afford to sell them at their true value and still realize a profit. For there is more labor-time embodied in his products than the labor-time for which he was forced to pay," (Chapter 6, p. 158).

""Perhaps even more noteworthy, he planned to write (although he did not live to do so) a book called Principles of Economics: it is significant that political economy was now called economics, and its expositions were becoming texts," (Chapter 7, p. 177).

"The single tax would not only dispense with the need for all other kinds of taxes, but in abolishing rent it would 'raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford free scope to human powers, purify government, and carry civilization to yet nobler heights.' It would be—there is no other word—the ultimate panacea," (Chapter 7, pp. 188-189).

"Much of the book was concerned with such a scrutiny of the economic psychology of our daily lives: the canons of monetary propriety were spelled out as completely and in as quaint a light as if they were a recently exhumed archaeological find. That much of the book was savored with relish by everyone; in a land of advertisement and keeping up with the Joneses, it was impossible to do otherwise than shake one's head and ruefully admire the unmistakable self-portrait," (Chapter 8, p. 230).

"So the businessman achieved his end, not by working within the framework of the social machine, but by conspiring against it! His function was not to help make goods, but to cause breakdowns in the regular flow of output so that values would fluctuate and he could capitalize on the confusion to reap a profit. And so, on top of the machinelike dependability of the actual production apparatus in the world, the businessman built a superstructure of credit, loans, and make-believe capitalizations. Below, society turned over in its mechanical routine; above, the structure of finance swayed and shifted. And as the financial counterpart to the real world teetered, opportunities for profit constantly appeared, disappeared, and reappeared. But the price of this profit seeking was high; it was the constant disturbing, undoing, even conscious misdirecting of the efforts of society to provision itself," (Chapter 8, p. 236).

"But there is one portion of our incomes which does not go directly out onto the marketplace to become another's income: that is the money we save. If we tucked these savings into mattresses or hoarded them in cash, we should obviously break the circular flow of income. For then we should be returning to society less than it gave to us. If such a freezing process were widespread and continued, there would soon be a cumulative fall in everybody's money income, as less and less was handed around at each turn. We should be suffering from a depression," (Chapter 9, p. 267).

"To be sure, once investment declined and the economy shrank in size, social misery appeared. But not—as Keynes point out—effective social misery: the nation's conscience would not do as an effective substitute for enough investment. Rather, since savings declined along with investment, the economic flow turned over evenly, quite unaffected by the fact that it was smaller than it used to be," (Chapter 9, pp. 272-273).

"The study of economics does not seem to require any specialized gifts of an unusually high order. It is not, intellectually regarded, a very easy subject compared with the higher branches of philosophy or pure science? An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher—in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institution must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician." (Chapter 9, pp. 286—287).

"Everything we have considered heretofore is, after all, only history. The evolution of the regulated and codified world of the seventeenth century into the atomistic market capitalism described by Adam Smith; the near escape of that capitalism from the landlord-dominated economy anticipated by Ricardo or the overpopulated subsistence society feared by Malthus; its presumptive self-destruction forecast by Marx; its chronic depressive tendency dissected by Keynes—all these adventures and misadventures of capitalism, however interesting, nevertheless lacked a certain element of suspense. For we knew at each juncture of history what the outcome would finally be. Now we are placed in a more uncomfortable position. As we turn to the modern economists, we are no longer discussing the ideas that helped shape our past: it is our own society, our won fate, our children's inheritance that lie in the balance," (Chapter 10, pp. 290—291).

Topics for Discussion

There were no economists until the 1700s. Why? Why was there no need for economists until that time?

How did Adam Smith define the invisible hand concept? What was its purpose?

How did the theories of Malthus result in economics becoming know as the dismal science?

What did Ricardo say was the relationship between rent and the price of grain?

What did the change in emphasis from distribution to production mean?

In Keynesian theory, what effect does the level of spending in an economy have? How doe Keynes explain the fact that an economy can get suck in depression, no matter how low the interest rate is?

What determines value in the Marxian framework? Why is this significant?

Explain how the Single Tax was supposed to work.