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Review Article

A Brief History of Economic Thought: A Review Essay

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I Introduction

After the 2007 Global Financial Crisis, although there has been a renewed interest in the history of economic thought (HET hereafter) worldwide, it still occupies a marginal presence in the economics curriculum. In India, among other places, HET is taught in Ambedkar University Delhi, Azim Premji University, Calcutta University, Central University of Karnataka, Purnea University, and several colleges in Bihar and Kerala. The syllabi for HET at most of these institutions are not updated with the latest research articles and books in this area. This review essay is also intended to serve as a roadmap for HET courses by underscoring important conceptual issues and themes in the history of economic thought as well as broader concerns like the sociology of economic thought.

In 2016, Heinz Kurz, one of the foremost historians of economic thought, published *Economic Thought: A Brief History* aimed at general readers (for my assessment, see Thomas 2016). In 2017, another leading historian of economic thought, Alessandro Roncaglia brought out *A Brief History of Economic Thought* which is the book under review. Roncaglia is the author of a monumental book (running to over 500 pages) on the history of economic thought (2005) and monographs on William Petty (1985) and Piero Sraffa (2009). The first and the last economist to be given a chapter-length treatment in Roncaglia's *A Brief History of Economic Thought* (2017) are, perhaps unsurprisingly, Petty and Sraffa. A key conclusion from Roncaglia's book, and for that matter, from any good course in the history of economic thought, is that mainstream marginalist economics which is "supported by many as the only truly scientific approach or even as the only one *tout court*, is but one, and possibly not the best, of the various approaches developed in the course of time" (p. ix). Roncaglia begins the book provocatively by stating that HET is considered useless by mainstream economists because they believe that "contemporary economic theory … incorporates all previous contributions" (p. 1). In other words, they believe that economic knowledge has evolved in a linear manner.

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After laying out the rationale of HET in a university curriculum in the introductory chapter, Roncaglia provides an overview of the key economic ideas from the classical Greek period to the seventeenth century in the second chapter. The economic thinking of Adam Smith, David Ricardo, Karl Marx, Alfred Marshall, John Maynard Keynes, Joseph Schumpeter, and Piero Sraffa are presented in standalone chapters. Other chapters deal with the physiocrats, J. B. Say, Robert Malthus, underconsumption theories, Ricardians (such as Robert Torrens, J. R. McCulloch, and J. S. Mill), marginalist revolution, general economic equilibrium, and recent developments in economics.

II Roncaglia's Approach to HET

In every chapter, there are cross references to economists and ideas in both the previous and upcoming chapters. A brief mention of the change in the historical context is also effectively communicated. In some instances, Roncaglia provides the etymology of words (for example, alienation on p. 128). The history of words, as it were, ably complements the history of economic thought well. A good example of tracing the history of the use of relevant economic terms is found in Tony Aspromourgos's outstanding book on Adam Smith, *The Science of Wealth* (2009). Roncaglia provides useful commentary on subsequent developments in the area via footnotes (for instance, p. 139, n. 14 provides a brief account of economists who developed Marx's thesis of the increasing concentration of financial capital). There is an interesting footnote which details Samuelson's misinterpretation of Sraffa's work (p. 247, n. 6); it is interesting because unlike orthodox economics textbooks, HET is open to substantive disagreements and multiple interpretations. Where relevant, there is a brief mention of the various editions of the key texts published (for instance, see the discussion on the various editions of Schumpeter's *Theory of Economic Development* on p. 220).

Each chapter contains a very useful section on the 'life and writing' of the economist. I list a sample of such details here. Smith served as the "commissioner of customs for Scotland" (p. 59); A. R. G. Turgot was the Minister of Finance from 1774-6 (p. 79); Malthus was Professor of history and political economy at the East India College where his teaching was based on Smith's *Wealth of Nations* (p. 80); Ricardo served as a member of the Parliament (p. 94); Torrens was a member of the Parliament too (p. 109); Carl Menger worked as a journalist and later became a civil servant (p. 153); and Marshall provided testimonials to parliamentary commissions (p. 182).

There is some commentary on the relationship between natural sciences and economics, especially how the latter was influenced by the former. Economic thinking was influenced by developments in the natural sciences (pp. 11-12), accounting (p. 13), and in technology (p. 13). Jevons adopted the model of physical sciences when he reduced complex "motivations of human actions [to] a fictitious one-dimensional picture" (p. 151). And Walras drew inspiration from physics, particularly from mechanics (p. 169). Book-length treatments of the relationship between the natural sciences and economics are available in Mirowski (1989), Groenewegen (2001), and Schabas (2005).

III Sociology of Economic Thought

That associations and networks matter in the nature of economic thought comes out clearly in Roncaglia's description of the place of study and work of the important economists. Petty studied with Thomas Hobbes (p. 28); Smith met François Quesnay in Paris (p. 59); Keynes went to King's College, Cambridge for university (p. 199); Eugen von Böhm-Bawerk was one of Schumpeter's professors (p. 216); and Schumpeter's students included Wassily Leontief, Paul Samuelson, Paul Sweezy, Richard Goodwin, Hyman Minsky, Shigeto Tsuru, and Paolo Sylos-Labini (p. 217). Moreover, it is well documented that in the case of Keynes, his friends and students—Richard Kahn, Joan Robinson, James Meade, and Piero Sraffa —influenced key analytical concepts in *The General Theory* (p. 205).

In what capacity did the past thinkers publish on economics? The "first chair in political economy was established in Naples, in 1754, for Antonio Genovesi…" (p. 10, n. 2). And prior to this the "reflections on economic phenomena were part of general reflections on society" (p. 39); indeed, no systematic analysis can be found in the "writings of the philosophers of classical antiquity or the Middle ages" (p. 13). Later, "Petty's writings did not have the form of systematic treatises but were rather immediate interventions in the then current political debates, often brief working notes or memoranda aiming at demonstrating policy theses…" (p. 32). Roncaglia underscores the implications economic theories or views (when discussing Turgot and Necker) had on policies through both influential writings or through direct policy prescriptions (p. 79). Marshall is credited for professionalising economics which has had both positive and negative effects on the generation and dissemination of economics knowledge (see the brief account at pp. 191-3). This was mainly brought about by his founding of the British Economic Association, which launched the *Economic Journal* (p. 182). Marshall's long-standing influence on the economics profession was through his pupils who became presidents of the British Economic Association and editors of the *Economic Journal* (p. 182). It would be very useful to see a book-length sociology of economic thought, as it were.

IV Interesting Points of Note

Roncaglia informs us that the famous pin factory example in Smith is taken from an entry in the *Encyclopédie* edited by Jean Le Rond d'Alembert and Denis Diderot (p. 64). It must be noted that Smith's *Theory of Moral Sentiments* and the *Wealth of Nations* are complementary and not antagonistic books (p. 61).

In the sixth chapter, which contains a discussion of Say's law and Malthusian political economy, a section is devoted to the debate on colonies principally involving the issue of population (sec. 6.6); in the context of India, an important book tracing the implications of classical political economy on colonial policy is S. Ambirajan's *Classical Political Economy and British Policy in India* (1978). It is interesting that the pessimistic view on population as a constraint on economic progress transforms into an optimistic one with the emergence of nation states and subsequent empire building (p. 90).

While the introduction of a new chapter on machinery by Ricardo in the third edition of *Principles* is quite well known to historians of economic thought, it is not common knowledge among economists that Ricardo proposed the "thesis that introduction of machinery in a sector may imply reduction of employment in the economy as a whole" (p. 107). Torrens criticised Ricardo's theory of value by pointing "to the importance of exceptions, due to different proportions of labour, of fixed and circulating capital in different industries and different lengths of active life of fixed capital goods" (p. 110).

Samuel Bailey "anticipated the Marshallian tripartition of constant, increasing and decreasing costs, though skipping over the third category" (p. 113). The assumption of constant returns to scale (CRS) remains central to contemporary marginalist economics; the debate on costs and returns inaugurated by John Clapham and escalated by Sraffa continues to remain relevant (see the discussion on pp. 228–230). The idea of a 'system of interest rates' as opposed to a single interest rate was proposed by Irving Fisher, and later developed by Sraffa and Keynes (p. 178). This idea of multiple interest rates has not yet made its way to the introductory textbooks on macroeconomics.

Knut Wicksell "wavered between an aggregate notion of capital and a disaggregated notion" (p. 161) because of the realisations that capital is a heterogenous bundle of commodities and that the marginalist theory of distribution cannot satisfactorily accommodate such a notion of capital. He also "developed a distinction between the money interest rate and the natural interest rate" (p. 162) where the natural interest rate was determined by the marginal productivity of capital.

The history of general equilibrium—an approach which attends to interdependencies in the economy—can be said to begin with Quesnay's *Tableau Economique* (p. 167). The archetype behind the marginalist thinking on the market was the medieval fair which guarantees the meeting between buyers and sellers; however, the structural interdependencies remained under-acknowledged in marginalists like Jevons and even Marshall (p. 168). Despite being one of the progenitors of marginalism, it must be highlighted that Walras was politically progressive; he advocated cooperativism and proposed to nationalise land (p. 171, n. 2).

After the slump in general equilibrium research and the rise of game theory and experimental economics, the meaning of equilibrium has transformed from long period equilibrium to temporary and intertemporal equilibrium; moreover, there is inadequate attention given to the debate on the existence, uniqueness, and stability of equilibrium in the current economics curriculum (see sec. 12.5).

Schumpeter adopted the position of 'methodological liberalism'—"that economic life has so many different aspects that it may usefully be analysed from a multiplicity of viewpoints" (p. 218). However, he had a "cautious attitude towards methodological individualism" of marginalist economics (p. 218).

Sraffa's contributions to economics is twofold: a critical evaluation of marginalist economics and the constructive revival of the classical economics of Smith, Ricardo, and Marx (p. 227). In particular, Sraffa's "critique undermines the very foundations of the [marginalist] idea … of an inverse relationship between real wage rate and employment…" (p. 239).

The dominant macroeconomics textbooks misrepresent Keynesian theory as a special case of marginalist theory wherein there is no tendency to the full employment of labour because of labour market imperfections (p. 254; for other marginalist interpretations of Keynesian economics by Robert Clower, Axel Leijonhufvud, Joseph Stiglitz, and James Tobin, see pp. 255–6).

V Substantive Issues

In this section, I provide a selection of substantive issues which can be further studied by postgraduate students in a term paper or a long essay.

The tendency to identify precursors is a rather strong current in any historical endeavour. However, caution is to be exercised because the theoretical context could be different or there could be contradictory statements in the work—and it is here that careful textual analysis becomes important (see, for instance, the problem in seeing Malthus as a precursor to Keynes on p. 86). The example of the former is found in Roncaglia's assessment of Jeremy Bentham's felicific calculus—"which consisted in quantitative evaluation and algebraic summation of pleasures and pains stemming from any action or set of actions" (p. 91); this was introduced by Bentham in the context of the debate on ethics "and not in the context of an analysis of consumers' behavior" and Roncaglia thinks that Bentham would have found the notion of marginal utility and the postulate of decreasing marginal utility "as stretching [the] application of the felicific calculus too far" (p. 93). Similarly, Marshall took Smith's idea of the link between 'division of labour' and 'extent of the market' and Ricardo's theory of differential rent and rechristened them increasing returns to scale and decreasing returns to scale respectively under the aegis of the theory of the firm and the industry (p. 189).

J. S. Mill must be recognised as a transitional figure between classical and marginalist economics. While he accepted Nassau Senior's theory of abstinence and transformed market prices into theoretical variables, he rejected the marginalist notion of a subjective theory of value (p. 125). On the other hand, classical economists like Richard Cantillon, Smith, and Ricardo treated market prices as variables which cannot be theorised because they are affected by transitory factors.

Roncaglia identifies a "twofold line of research" in Marshall: the building of a theoretical apparatus "based on a static notion of equilibrium between supply and demand" and "the attempt to work out a system of concepts such as to represent economic reality in a way that allowed for historical developments and evolution" (p. 185). According to Roncaglia, understanding Marshall warrants an engagement with these two paths and the recognition that they *cannot* be reconciled. This kind of tension is also visible in contemporary marginalist accounts which takes cognisance of local institutional features.

In chapter seventeen, the final one, entitled 'The age of disgregation', Roncaglia discusses key developments in general equilibrium, behavioural economics, growth theory, theories of the firm, econometrics, and institutionalism. He begins the chapter by noting the role played by institutions such as the Cowles Foundation and the Rand Corporation and by military programmes in America's research activity (p. 243). As Roncaglia notes, "the focus of US economic culture shifted from the analysis of society to the analysis of decisions" (p. 243). Indeed, with this shift, all aspects of human life, reduced to rational choices, could now be studied with the help of marginalist economics—leading commentators to aptly describe this state as the "imperialism of economics" (p. 244). Furthermore, the professionalisation of economics which started with Marshall intensified and (now) expects the following from its community: "internal consistency and coherence with the basic axioms of the dominant tradition and a strict attitude of closure towards whatever did not fit into this tradition" (p. 244).

VI Issues of Omission

For the uninitiated but interested reader, and more so for the teachers and students of HET, a list of handbooks and companions such as *The Cambridge Companion to Adam Smith* or *The Elgar Companion to Classical Economics* would have been helpful. And for the more informed reader, references to recent articles published in journals such as the *European Journal of the History of Economic Thought*, *Journal of the History of Economic Thought*, or the *History of Political Economy* would have been useful.

I found only two typos in the book: missing quotation marks in footnote 16, p. 76 and misspelling Schumpeter once on p. 217.

VII HET for Contemporary Thought

This section assembles ideas found in Roncaglia's book under the three themes of textbooks, power, and pure theory which serve as anchors for understanding contemporary economic thought.

Role of Textbooks

Textbooks serve as an important vehicle for communicating the dominant ideas: J. B. Say's book was used a university textbook in USA, Britain, and France (p.

83, n. 5); Mill's *Principles of Political Economy* remained the "standard text for the study of political economy, at least in the Anglo-Saxon world" (p. 124) for more than forty years until Marshall's *Principles of Economics* after which the latter "became the reference text for generations of economists" (p. 182).

Most mainstream economics textbooks still use the exogenous money framework to explain the rate of interest and inflation. However, the presence of HET in the curriculum can introduce the student, for instance, to the monetary debates which took place between the Banking school (Thomas Tooke) and the Currency school (David Ricardo) thus demonstrating the long history of endogenous money, a superior account to understanding monetary issues (see the brief discussion on pp. 103–4).

Role of Power

Ricardo's political economy made transparent the "clash of interests between the landlords, politically dominant at his time, and the manufacturing bourgeoisie" (p. 97). The underscoring of the underlying power relation between the workers and the capitalists reached its zenith in Marx's political economy.

Today, mainstream economics often employ more 'scientific' nomenclature such as asymmetries and frictions to describe power in a simplistic manner. As an example, contrast the policy prescriptions emanating from the political economy of Ricardo and Marx with that of behavioural economics: since "economic agents are sufficiently but not fully rational," the conclusions of behavioural economics suggest "behavioural paternalism", a human reengineering programme, as it were, which constantly engineers and reengineers the incentive structures to influence *individual* behaviour (p. 251).

Role of Pure Theory

Between the twelfth and sixteenth centuries, the "discussion of just price and usury … [were] always considered from the standpoint of ethics" (p. 19). Subsequently, the discussion of commodity prices and functional income distribution took place under the label of value and distribution theory. Pure theory, as it is called, is still significant because "[t]he main argument in defence of free trade [in the 17$^{\text{th}}$ century and even today] is a petition of principle, the idea that no obstacles should be opposed to the unfettered working of the 'natural laws'" (p. 40). And perhaps therefore there is some merit in positing that some debates have to be conducted entirely in the realm of ideas or principles.

The following excerpt underscores the role ideology plays not just in economic policy but more critically in the 'pure' theory of value. "The conservatives of the time were wary of Ricardo's ideas, while a view alternative to Ricardo's and Smith's held on, playing an important role in the debate of the time. At the political level, it was argued that the landlords played a positive role in the economic process; at the analytical level, a theory of value based on scarcity and utility was proposed” (pp. 117–8). Indeed, HET provides the intellectual artillery to question the apparent apolitical stance of mainstream microeconomic theory.

Since HET introduces the student to classical and marginalist economics, it offers her at least two different ways of understanding the economy. The differences between classical and marginalist economics “concern definition of the economic problem, the notion of value, the concept of equilibrium, the role of prices and the theory of distribution” (p. 144). A good historical account of classical and marginalist theories is found in Bharadwaj (1986 [1976]).

VIII Conclusion

HET enriches the curriculum by providing a longer account of debates, places theories in an intellectual context, and consequently also offers the possibility of understanding economic policies historically. Overall, Roncaglia’s book provides a useful guide to the history of economic thought.

With respect to debates in economic theory, the three prominent ones deal with the theory of value, the theory of money, and the theory of output. The contrasting theories of output and employment of Pigou and Keynes has a longer history; Sismondi and Malthus had already highlighted the possibility of a general glut if aggregate demand is insufficient in opposition to the then dominant Say’s law which enjoyed intellectual dominance (p. 85). Such accounts not only help us identify similarities and differences across debates but also point towards the contentious nature of economic theories and consequently of policies. Even today, the mainstream economics textbooks teach students that money is exogenous and not that it is endogenous (see the brief discussion in section VII). Although mainstream textbooks on microeconomics present the theory of value (or price theory) as largely a settled matter, HET provides a much needed introduction to pluralism in microeconomics. Of course, a subsequent course which determines prices starting from an individual as well as a class is required.

HET brings to light multiple sources (and authorities) relating to various ideas which acts as a powerful antidote to the dominant monoculture in economics teaching and research (see p. 81). While the mainstream view is that microeconomics is ‘positive’ and devoid of politics and macroeconomics is ‘normative’ as it is a contested domain, as just noted, HET points out the deep contestations characterising price theory (a significant component of microeconomics).

Although Roncaglia’s book is intended “as a textbook or an introductory text for non-economists” (p. ix), it is better suited to serve as a textbook for introductory HET courses both at the undergraduate and postgraduate levels, and it also serves as a good supplementary reading for economics courses in institutions which do not teach HET.

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