

The Ordinary Business of Life

A History of Economics from
the Ancient World to
the Twenty-First Century

Roger E. Backhouse

C

PRINCETON UNIVERSITY PRESS
PRINCETON AND OXFORD

Contents

Acknowledgements x

Prologue i

The History of Economics i

What is Economics? 3

Viewing the Past through the Lens of the Present 6

The Story Told Here 8

1 The Ancient World n

Homer and Hesiod 11

Estate Management-Xenophon's *Oikonomikos* 13

Plato's Ideal State 18 > !

Aristotle on Justice and Exchange 19

Aristotle and the Acquisition of Wealth 22

Rome 25

Conclusions 27

2 The Middle Ages 29

The Decline of Rome 29

Judaism 31

Early Christianity 33

Islam 35

From Charles Martel to the Black Death 39

The Twelfth-Century Renaissance and Economics in the
Universities 41

Contents

Nicole Oresme and the Theory of Money 47

Conclusions 49

3 **The Emergence of the Modern World View - the Sixteenth Century** 51

The Renaissance and the Emergence of Modern Science 51

The Reformation 54

The Rise of the European Nation State 56

Mercantilism 57

Machiavelli 59

The School of Salamanca and American Treasure 60

England under the Tudors 61

Economics in the Sixteenth Century 64

4 **Science, Politics and Trade in Seventeenth-Century England** 66 1

Background 66

Science and the Scientists of the Royal Society 67

Political Ferment 73

Economic Problems - Dutch Commercial Power and the Crisis of the 1620s 76

The Balance-of-Trade Doctrine 77

The Rate of Interest and the Case for Free Trade 79

The Recoinage Crisis of the 1690s 84

Economics in Seventeenth-Century England 87

5 **Absolutism and Enlightenment in Eighteenth-Century France** 89

Problems of the Absolute State 89

Early-Eighteenth-Century Critics of Mercantilism 91

Cantillon on the Nature of Commerce in General 94

The Enlightenment ^

Physiocracy 100

Turgot 104

Economic Thought under the *Ancien Regime* 109

6	The Scottish Enlightenment of the Eighteenth Century	no
	Background	no
	Hutcheson	112.
	Hume	114
	Sir James Steuart	117
	Adam Smith	121:
	Division of Labour and the Market	123
	Capital Accumulation	126
	Smith and Laissez-Faire	127
	Economic Thought at the End of the Eighteenth Century	130
7	Classical Political Economy, 1790-1870	T32
	From Moral Philosophy to Political Economy	132
	Utilitarianism and the Philosophic Radicals	136
	Ricardian Economics	137
	Alternatives to Ricardian Economics	141
	Government Policy and the Role of the State	147
	Money	150
	John Stuart Mill	153
	Karl Marx	156
	Conclusions	164 • I
8	The Split between History and Theory in Europe, 1870-1914	166
	The Professionalization of Economics	166
	Jevons, Walras and Mathematical Economics..	167
	Economics in Germany and Austria	173
	Historical Economics and the Marshallian School in Britain	177
	European Economic Theory, 1900-1914	182
9	The Rise of American Economics, 1870-1939	185
	US Economics in the Late Nineteenth Century	185
	John Bates Clark	187
	Mathematical Economics	190
	Thorstein Veblen	195

Contents

John R. Commons	198
Inter-War Pluralism	201
Inter-War Studies of Competition	202
The Migration of European Academics	207
US Economics in the Mid Twentieth Century	209

10 Money and the Business Cycle, 1898-1939 211

Wicksell's Cumulative Process	211
The Changed Economic Environment	214
Austrian and Swedish Theories of the Business Cycle	217
Britain: From Marshall to Keynes	219
The American Tradition	224
Keynes's <i>General Theory</i>	228
The Keynesian Revolution	232
The Transition from Inter-War to Post-Second World War Macroeconomics	235

11 Econometrics and Mathematical Economics, 1930 to the Present 237

The Mathematization of Economics	237
The Revolution in National-Income Accounting	240
The Econometric Society and the Origins of Modern Econometrics	245
Frisch, Tinbergen and the Cowles Commission	248
The Second World War	252
General-Equilibrium Theory	254
Game Theory	262
The Mathematization of Economics (Again)	265

12 Welfare Economics and Socialism, 1870 to the Present 269

Socialism and Marginalism	269
The State and Social Welfare	271
The Lausanne School	274
The Socialist-Calculation Debate	275
Welfare Economics, 1930-1960	279

Market Failure and Government Failure 282

Conclusions 284

13 Economists and Policy, 1939 to the Present 288

The Expanding Role of the Economics Profession 288

Keynesian Economics and Macroeconomic Planning 290

Inflation and Monetarism 295

The New Classical Macroeconomics 298

Development Economics 301

Conclusions 306

14 Expanding the Discipline, 1960 to the Present 309

Applied Economics 309

Economic Imperialism 311

Heterodox Economics 313

New Concepts and New Techniques 317

Economics in the Twentieth Century 321

Epilogue: Economists and Their History 325

A Note on the Literature 329

References 344

Index 353