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REVIEW OF SOCIAL ECONOMY

ECONOMICS AS SOCIAL ECONOMICS: THE VIEWS OF THE "FOUNDING FATHERS"

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Speaking in a Malthusian vein, "I think I may fairly make . . . [six] postulata." [Malthus, p. 4] 1) That economic problems are necessary to the existence of economics. 2) That conceptualization of economic problems is a prerequisite for the practice of economic analysis. 3) That in economics, the function of conceptualizing problems has been performed by a small number of "founding fathers" of economic theories. 4) That once a newly formulated theory was accepted in the past by an identifiable group of practitioners, it was further articulated and refined by the members of the group. [Kuhn, p. 24] 5) That in consequence of their singleminded devotion to the task of refining a received theory, most of the researchers involved took the position that their discipline was a value-free "positive science." [Friedman, p. 7] 6) That in view of these approaches and predilections on the part of articulating economists, it came to pass that "the mainstream of economic theory sacrifices . . . relevance in its insistent pursuit of ever-increasing rigor." [Gordon, p. 1]

It is not my purpose, however, to inquire into the nature and character of the development of a "normal science" in economics which may have been instrumental in insulating economists from a number of "socially important problems." [Kuhn, pp. 23, 37] My objective is more limited and may be stated thus: I shall endeavor to demonstrate that those whom I classify as founding fathers were practitioners of social economics. In this group I include Adam Smith, the creator of classical political economy; W. Stanley Jevons, Alfred Marshall, Carl Menger and Leon Walras, co-founders of neo-

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classical economics; and John Maynard Keynes, the architect of twentieth-century macroeconomics.

I. THE FOUNDING FATHERS' VIEWS ON WELFARE

The founders of the major schools of economics "were without exception devoted to the doctrine that the well-being of the whole people should be the ultimate goal of all private effort and all public policy." [Marshall, 1956, p. 39] They were also in complete agreement that human well-being and welfare could be achieved only through plentiful consumption.

Smith argued, for example, that it would not be possible to secure "the happiness of all" members of society unless they were adequately supplied with "all the necessaries and conveniences of life . . ." Consumption contributes to the attainment of "real happiness" in consequence of the "real satisfaction," "pleasure," or "utility" which it occasions. On the other hand, unhappiness is associated with "pain," such as that caused by an insufficient command of want-satisfying articles or by the "disagreeableness" of the "toil and trouble of acquiring" consumer goods and services. Thus given the fact that "[p]leasure and pain are the great objects of [human] desire and aversion," Smith reached the following conclusion: It "is the sole end and purpose of all production" to provide "Consumption" with a minimum of painful exertion so that man may be enabled to "procure ease and pleasure." [Smith, 1976, p. 106; 1937, p. lvii; 1976, pp. 185, 183, 300, 180, 299; 1937, pp. 100, 30; 1976, p. 320; 1937, p. 625; and 1976, pp. 299-300]

Jevons and Marshall agreed with Smith that "consumption . . . is the end and purpose of the production of wealth," i.e., those "things" to which they referred as the "results of production, as subjects of consumption and as yielding pleasures of possession." [Jevons, 1905, p. 22; Marshall, 1956, p. 68] Consequently, what "we have to learn in political economy . . . is how to supply our various wants as fully as possible." But "we must always try to produce things with the least possible labour; for labour is painful exertion [as pointed out by Smith], and we wish to undergo as little pain and trouble as we can." It is therefore the "object of Economics . . . to maximize happiness by purchasing pleasure, as it were, at the lowest cost of pain." [Jevons, 1878, p. 20; and 1957, p. 23]

In Menger's frame of reference, "human welfare" is a function of the availability of "use value," by which he meant the want-satisfying capacity possessed by scarce goods. In view of this, it is the task of economists "to show how men . . . [may] direct the available quantities of [scarce] goods (consumption goods and means of production) to the greatest possible satisfaction of their needs." [Menger, 1950, pp. 96, 119, 94]

As Walras saw it, there are two major criteria of human welfare: "the useful, meaning material well-being" achieved through the attainment of "maximum utility"; and "the good, meaning justice." To point out how these goals may be achieved is the task of that branch of economics which Walras called "social economics." [Walras, 1954, pp. 64, 37, 64; and *Sociale,* 1936, p. v; emphases deleted]

In terms of his normative judgments concerning welfare, Keynes operated within the grand tradition founded by Smith which was handed to him by Jevons, Marshall and A. C. Pigou. Hence the author of *The General Theory* accepted the Smithian dictum that "[c]onsumption . . . is the sole end and object of all economic activity." [Keynes, 1936, p. 104]

Moreover, like the founders of classicism and neoclassicism, Keynes conceived of consumption as a painfully acquired means to the end of achieving satisfaction. For this reason, he looked forward to a day when "science and compound interest" would have brought about a situation in which a "fifteen-hour [work] week" is the norm and in which everybody is "eight times better off . . . than we are today." In other words, Keynes was in favor of a state of affairs in which there is a tendency for the "marginal disutility of labour" to be "less than the utility of the marginal product." [Keynes, Vol. IX, 1972, pp. 328, 329, 326; and 1936, p. 128]

Keynes argued *a la* Walras that the realization of such a condition is bound up with the attainment of "social justice" for all citizens and that it is the chief mission of economics to contribute to the achievement of human welfare in terms of satisfaction and justice. Economists must, therefore, be imbued with an "unselfish and enthusiastic spirit, which loves the ordinary man . . ." [Keynes, Vol. IX, 1972, p. 311]

II. POVERTY: THE CHIEF PROBLEM IN THE ECONOMIC ORDER

In view of the above, it may fairly be argued that none of the founders of economic doctrines conceived of his science solely "as a means of winning truth for its own sake." On the contrary, they developed their models and theories in order to unravel "truths" which might "yield solutions" of important "live economic problems . . ." [Pigou, p. 84; Walras, 1954, p. 72; Stigler, p. 56]

There was one specific and fundamental problem to which all the paradigm builders addressed themselves. This was the problem of poverty which they viewed as the cause of "the destruction . . . and . . . the degradation of a large part of mankind," namely those "labourers and workmen" who, under existing conditions, "must remain poor for ever." [Marshall, 1956, p. 2. Smith, 1937, p. 78; and 1964, p. 223] Thus it was in order to attack "the citadel of poverty" [Jevons, 1904, p. 2] that Smith, Jevons *et al.,* and Keynes forged their analytical tools. And whenever analysis showed that a particular factor interfered with the "attainment of . . . the maximum of utility" and "welfare," this factor "should, without exception, be eliminated as completely as possible." [Walras, 1954, p. 256; Menger, 1950, p. 75; Walras, 1954, p. 256]

Smith, the authors of neoclassicism and Keynes selected different factors for elimination, however. They did so because they conceptualized the economic reality, and thereby the causes of poverty, in different terms. This differentiation resulted largely from the fact that there was a change in the "conception of history" from generation to generation of doctrine builders. [Robinson, p. 125]

All three generations of builders analyzed economic phenomena within a framework comprised of "that tangled complex which constitutes the history of man . . ." [Marshall, 1897, p. 300] But they lived and worked in different periods of history. Consequently, each succeeding generation observed and experienced a stage in the history of the economy, and in the history of thought and action, which was unknown to the previous generation. And it was the unfolding events in the real realm, as well as in the hypothetical realms, of the epoch in which a particular founder lived that were "burned into his soul." [Stigler, p. 61] That is to say, it was out of these newly experienced events that the founder in question constructed a novel conception of reality, a reality which he subjected to formal economic analysis. In the history of economics, it therefore came to pass that each successive body of doctrine "begins at that point where . . . [a previous one] reaches its limit, and . . . it threw new light on just those phenomena which its predecessors [or predecessor] . . . had left in the dark." [Mannheim, p. 150]

Two major consequences ensued from the fact that Smith, the builders of neoclassicism and Keynes "conceived [of the] economic world" in different ways. [Menger, 1963, p. 73] In the first place, they attributed the existence of poverty to different causes. As a result, the "substance of the problem of reform . . . changed" from paradigm to paradigm. Secondly, the three generations of founders constructed different models and theories in order to find solutions for the causally differentiated problems of poverty. Hence "the machinery with which . . . [reform] has to be handled" likewise changed from paradigm to paradigm. [Marshall, 1897, p. 299]

III. CAUSES AND CURES OF POVERTY

Smith concluded on the basis of an extensive historical survey that poverty existed in his society because of a "slow progress of opulence" in the past. This he attributed to two causes: "first, natural impediments" to growth which formed a vicious circle; "and, secondly, the oppression of civil government." [Smith, 1937, pp. 356-396; and 1964, p. 222]

The vicious circle had its origin in "arts" which were primitive and nearly static. Hence the "productive powers of the . . . labourers" were feeble. Low productivity resulted in low levels of entrepreneurial revenue, profit and saving. There was therefore insufficient accumulation of "capital" so that the economy continued to generate small volumes of entrepreneurial revenue, profit, saving and investment and, consequently, a minimal "annual produce"; and so on *ad infinitum*. [Smith, 1964, p. 222; and 1937, p. 326]

Thus it was due to the predominance of crude methods of production that there could "be very little accumulation of capital" in the past. Things were changing in the second half of the eighteenth century, however. New inventions were made with increasing frequency because "[m]ore heads . . . [were] occupied in inventing the most proper machinery" than ever before. [Smith, 1964, p. 223; and 1937, p. 86] The point at which the vicious circle could be broken should therefore be within reach. But there was a catch.

Instead of searching for inventions as objects of profitable investment, the businessmen employed an easier, and less risky, method for maximizing their net revenues. They simply charged "the highest [price] which can be squeezed out of the buyers" of goods produced by the use of traditional techniques. The "undertakers" were able to do so by virtue of "the monopoly which . . . [they had] obtained" by the grace of government. [Smith, 1937, pp. 61, 381, 438]

Smith was convinced, however, that monopolies could not endure unless they were granted and guaranteed by government. In his opinion, "free competition" would establish "itself of its own accord" if the "sovereign . . . [were] completely discharged from . . . the duty of superintending the industry of private people . . ." [Smith, 1937, pp. 61, 651]

In conformity with this postulate, Smith built a perfectly competitive model of that which he conceived to be the economic order and analyzed its behavior on the assumption that all men are rational maximizers of utility. [Smith, 1976, p. 189] The conclusions which he reached on the basis of this analysis moved Smith to announce his policy recommendations thus: Introduce "perfect liberty" in the setting of "an exact administration of justice . . ." Concretely, "break down the exclusive privileges of corporations, and repeal the statute of apprenticeship, ... and all those [other] laws which restrain . . . competition . . ." [Smith, 1937, pp. 56, 651, 437, 61]

Smith advocated *laissez faire* because he was convinced that it was the only workable system for the elimination of the businessmen's power "to deceive and . . . oppress the public" with the aid of a corrupt government. Once the legislature was prevented from supporting "every proposal for strengthening . . . monopoly," the individual capitalist would be "led by an invisible hand to promote an end which was no part of his intention," namely that of rendering "the annual revenue of the society as great as he can." [Smith, 1937, pp. 250, 438, 423]

Competition would not just spur growth, however. It would also bring about an approximately equal distribution of the fruits of growth. The capitalists would be led by the ubiquitous "invisible hand to make nearly the same distribution of the necessaries [and conveniencies] of life, which would have been made, had the earth been divided into equal portions among all its inhabitants . . ." In terms of welfare, which "constitutes the real happiness of human life, . . . all the different ranks of life are [therefore] nearly upon a level . . ." [Smith, 1976, pp. 184-185, 185]

A. *The Legacy of LAISSEZ FAIRE: The Original Neoclassical Concern*

The potential economic growth which Smith desired to actualize had become a reality well before the centennial year of the *Wealth of Nations*. In view of this, Jevons expressed a strong "belief in [continued] progress." Walras agreed with this proposition. He observed, for example, that man "is a creature endowed with reason . . . and possessed of a capacity for initiative and progress." According to Menger, these faculties "have led mankind . . . to its present stage of . . . well-being . . ." And he added: "Nothing is more certain than that the degree of economic progress of mankind will still, in future epochs, be commensurate with the degree of progress of human knowledge." Marshall took a similar position. He found therefore "no good reason for believing that we are anywhere near a stationary state . . . in which the accumulation of wealth will cease . . ." [Jevons, 1972, p. 51; Walras, 1954, p. 55; Menger, 1950, p. 74; Marshall, 1956, p. 185]

The achievement of self-sustained economic growth was one thing, however. The actualization of Smith's vision of an equitable and just distribution of opulence was an entirely different matter. This Jevons discovered when he examined the consequences of the implementation of the "*laissez-faire* doctrines . . . of . . . Adam Smith." [Jevons, 1905, p. 204]

As Jevons saw it, the "whole social system . . . bristle[d] with questions which . . . [would] have to be decided . . . upon economic grounds." Whether he looked "at the homes of the mass of the people, at workhouses or hospitals, . . . [or] the endless discussions of workmen and masters, . . . [or] the scandalous waste of endowments," he could not "help feeling that the work before economists is more than ample." [Jevons, 1905, p. 202]

Marshall had his eyes opened when he "visited the poorest quarters of several cities and walked through one street after another, looking at the faces of the poorest people." After these excursions, he asked himself the following questions: "Is it necessary that, while there is so much wealth, there should be so much want?" Is it "necessary that there should be any so-called 'lower classes' at all?" Is it "really impossible that all should start in the world with a fair chance of leading a cultured life, free from the pains of poverty and the stagnating influences of excessive mechanical toil . . . ?" [Marshall in

Keynes, 1925, p. 10; in Pigou, p. 83; and 1956, pp. 2, 3]

It is "within the province of economics" to find answers to these questions, however. Consequently, Marshall "devoted" himself to "the problem of poverty" in a comparatively wealthy society; "and very little of . . . [his] work has been devoted to any inquiry which does not bear upon that." [Marshall, 1956, p. 3; and in Edgeworth, p. 70]

Walras agreed with Jevons and Marshall that the chief unresolved issue in the economic order was "the problem of the distribution of social wealth among men . . ." In Walras' opinion, the practitioners of orthodox "economism" had gone into hysterics or "ecstasies over the admirable manner in which" the economic system "directs" this distribution. But what they actually did was to present "as working well a system that works badly . . ." In other words, the claim of the orthodox economists that "*laisser-faire, laisser-passer* . . . harmonizes apportionment with abundance" was false and deceptive. [Walras, *Sociale,* 1936, pp. vii, 233; and 1954, p. 75]

Walras therefore resolved to demonstrate how abundance might be equitably and "properly proportioned," or distributed. For that purpose, he constructed three instruments of inquiry: a body of "pure economics" and two policy sciences, namely the aforementioned discipline of "social economics" and one which he labeled "applied economics." Pure economics serves as the foundation for the policy sciences in that it provides "truths" which "yield solutions of very important problems of applied economics and social economics . . ." In short, "pure theory . . . is the guiding light for practice." [Walras, 1954, p. 75; *Sociale,* 1936, p. v; 1954, p. 72; and *Appliquée,* 1936, p. 68]

Although Menger dealt less explicitly with the problem of poverty than did his three coauthors of the neoclassical doctrine, such "indications as we have of . . . [his] sympathies are on the side of the current movements for social reform." [Hayek, p. 3] He argued, for example, that the purpose of economics "is understanding of the real world, . . . and control of it." [Menger, 1963, p. 55]

This control is to be exercised by the use of tools forged by the practitioners of "political economy," a discipline which Menger divided into a Walrasesque triad: "theoretical economics" provides the "basis" for two "practical sciences," namely "economic policy and the science of [public] finance." It is the task of the two policy sciences to "teach us what the conditions are supposed to be for definite human aims to be achieved" so that "efforts of a definite kind can be most suitably pursued." [Menger, 1963, pp. 39, 212, 39, 38; emphases deleted]

In order to attain these objectives, the "totality of the theoretical-practical sciences" must continually test "for their suitability those institutions" that impinge on human welfare. And whenever tests reveal that institutions malfunction, the economists "must . . . change and better them. . . . No era may renounce this 'calling'." [Menger, 1963, p. 234]

The conviction that institutional reform was necessary made at least Marshall and Walras socialists of sorts. Thus Marshall proclaimed: "In one sense indeed I am a socialist, for I believe that almost every existing institution must be changed." [Marshall, 1975, p. 341] And Walras "was certainly, in the old sense of the term, a 'socialist,' that is one who believed in the large-scale rational reform of society . . ." [Hutchison, p. 200]

It is evident from the quotations rendered above that the founders of neoclassicism were concerned with reforms designed to bring about a redistribution of income in favor of the poor. And they were confident that this objective was achievable. In that period of history which had left its imprint on their minds, society had "grown in wealth" to such an extent that it was "no longer compelled to subordinate almost every other consideration to the need of increasing the total produce of industry." In view of this, the growth-oriented "theory of . . . Adam Smith and his followers . . . [was] an insufficient basis for the practical sciences of national economy, and thus also of practice in this field." Consequently, each of the authors of the neoclassical doctrine "struck out" what he had "no doubt . . . [was] *the true theory of Economy* . . ." [Marshall, 1956, p. 621; Menger, 1963, p. 27; Jevons, 1973, p. 410]

This was, of course, the "Statical theory of equilibrium" according to which every person will allocate his purchasing power "in such a way that it has the same marginal utility in all" of the "several uses" to which it may be put. It follows, therefore, "that no alteration [in allocation] would yield him more pleasure . . ." But an increase in his purchasing power would enlarge a person's total satisfaction. That is so because each individual has "an endless variety of wants . . ." Hence the more purchasing power he obtains, the greater the *"total utility"* attained. [Marshall, 1956, p. 382 and 98; Jevons, 1957, p. 59; Marshall, 1956, p. 78]

This conclusion was not lost on the architects of neoclassism. In their world of inequality, nobody would be "justified in standing calmly by and quoting *laissez-faire* doctrines . . ." If the "citadel of poverty . . . [were] to be taken at all, it must be besieged from every point of the compass—from below, from above, from within; and no kind of arm must be neglected which will tend to secure the ultimate victory of morality" and welfare. Hence Jevons and his colleagues believed "that it will be found impossible to dispense with more and more minute legislation." [Jevons, 1905, p. 204; 1904, p. 2; and 1905, p. 204] This legislation they divided into two categories: one set designed to affect market prices and another fashioned to raise the incomes of the poor.

As far as the first category is concerned, Marshall advocated public measures to "get rid of the evils of competition while retaining its advantages." Competition is beneficial when it takes the form of passive adjustments to market forces on the part of a marginal or "representative firm." Competition is evil when it is imperfect; that is, when firms have established a "very steep . . . demand curve" for each of their specific products. The firms in question have accomplished this feat either because they have been able "to attain quickly command over new economies of production" or because they have entered into "a strong combination" in order to "regulate the price . . . with very little reference to cost of production." [Marshall in Keynes, 1925, p. 16; and 1956, pp. 265, 379n, 239, 312n]

Marshall was therefore in favor of steps designed to preserve true price competition where it existed and to recreate it where it had disappeared. He was all the more adamant in his advocacy of policies for the preservation of small-scale, competitive enterprises because he was convinced that in "many industries, . . . a comparatively small capital will command all the economies that can be gained by production on a large scale . . ." [Marshall, 1890, p. 279]

According to Walras, in "an industry susceptible to perfect competition," the price will be "equal to the cost of production so that the entrepreneurs will neither gain [economic] profit nor suffer loss." A monopoly, on the other hand, will afford its owners "the greatest possible profit." The consumers will therefore obtain much less "maximum satisfaction" than under competition because the "selling price is higher than the cost of production." [Walras, *Appliquèe*, 1936, p. 200]

Hence whenever and wherever monopoly appears, the state must "intervene . . . in the public interest." Specifically, Walras recommended that "private monopolies be transformed into state monopolies or into [privately owned] monopolies concessioned [and controlled] by the state." But state ownership or control might have merits even in the absence of monopoly power. Walras therefore recommended that a "grand experiment" be conducted in order to test the benefits of "individual initiative" against the benefits of "state intervention or initiative." [Walras, *Appliquée,* 1936, pp. 201, 272]

Jevons advanced his proposal for industrial reorganization for the principal purpose of raising the income of the working class. In his opinion, nothing could be said "in favour of the present relations of capital and labour." He suggested, therefore, that the "workmen . . . become sharers in their master's profits" through the application of "the Industrial Partnership principle . . ." It is "only in becoming small capitalists that the working-classes will acquire the real independence from misfortunes, which is their true and legitimate object." [Jevons, 1904, pp. 118, 142]

Jevons did not see any need for public policies to promote his radical, but utopian, scheme. All that was required was that concerned men, such as Jevons himself, make an effort to convince the owners of property that "the present evil state" of "strikes, and powerful [labor] organisations . . . must be prolonged" if the "masters do not take the initiative and adopt the partnership principle . . ." Sooner or later, the employers would see the light and establish people's capitalism with the result that "the hard, sharp line which now exists between capital and labour will ultimately vanish." [Jevons, 1904, pp. 143, 118, 143]

There was a growing sector, however, that was beyond the pale of competition and in which the introduction of industrial partnerships might not contribute to a solution of the welfare problem posed by high prices. This sector consisted of those natural monopolies, or "*indivisible* industries," that had sprung up in transportation and other public utilities. Inasmuch as he preferred private ownership for reasons of efficiency, Marshall argued that the government's "right of interference must be absolute" if the consumers were not to be overcharged by the natural monopolies. Fortunately, most of the "indivisible industries . . . obey the Law of Increasing Returns . . ." Hence by virtue of the increase in the volume demanded it could be expected to stimulate, a government-imposed "reduction of price" would bring about a fuller utilization of capacity and thereby a fall in average costs. A decline in utility rates "will [therefore] confer on the consumer a benefit out of all proportion to the extra cost involved." These benefits would be maximized if the government subsidized the consumption of utility services in order to take full advantage of declining average cost: "an enormous increase of Consumer's Rent [or surplus] will be effected by a bounty, the total cost of which to Government will not be very great." [Marshall, 1890, pp. 274, 275, 277; and 1975, p. 230]

Walras and Jevons took a position similar to that of Marshall. Walras observed, for example, that the railroads provide a "public service"; but they are also a "natural and necessary monopoly." In view of this, he recommended after a lengthy discussion that the railways be privately owned but publicly controlled by the means of "concessions" granted to the operators by the government. [Walras, *Appliquée,* 1936, pp. 229, 232, 193-232, 232] And Jevons opined that "Parliament ought to apply strong remedies . . . [and] devise and create a judicious system of control and reform . . . [in order] to improve and cheapen railway communication . . ." [Jevons, 1904, pp. 366, 367]

If, however, the poor were to benefit substantially from lower prices in the market place, or if they were to become Jevonian capitalists, they would have to enhance their earning powers and capacity for decision making. "Knowledge" is the chief means to this end. [Jevons, 1905, p. 90; Menger, 1950, p. 74] But knowledge must be acquired. Consequently, it was through "education" that individuals in "the great mass" of the "working classes" were to extricate themselves from the "dirt and squalor and misery" in which they lived. [Marshall, 1956, p. 467; 1885, p. 172; 1889, p. 236; and 1885, p. 172]

Unfortunately, poor parents are prevented by their very poverty from "investing capital in the education and training of their children . . ." The "evil" of poverty is therefore "cumulative." In view of this, Marshall and his colleagues did not doubt "the wisdom of expending public . . . funds on education" and "instruction." [Marshall, 1956, pp. 467, 468, 179; Walras, *Appliquée,* 1936, p. 198]

Public outlays should first and foremost be directed toward "general education" and "[t]echnical education," but the "means of higher education" should also be opened "to the masses" in order to bring "out their latent abilities." In short, it was recommended that the government support all forms of education in order to help "the people . . . to rise to a higher level; to become not only more efficient producers but also wiser consumers, with greater knowledge of all that is beautiful, and more care for it." [Marshall, 1956, pp. 173, 180, 179; and 1885, p. 173]

Enlarged public expenditures for economic regulation, subsidization of consumption and support of education would require increases in taxes, of course. The tax system should be so devised, however, that it would contribute to a furtherance of the social objectives of the expanded government activities. The existing tax system would not do so. Jevons estimated, for example, that "the poor labourers . . . pay in taxes 20 to 25 per cent of their small wages." This was a substantially higher rate than that paid by the wealthier classes. [Jevons, 1905, pp. 261, 254] The regressive rate structure was due to the prevalence of indirect taxes. But a "tax on a commodity is to be condemned as causing the people," especially poor people, "a loss of satisfaction . . . much greater than the equivalent of the revenue which it brings into the Treasury . . ." [Marshall, 1975, p. 78]

Walras and Marshall therefore "propose[d] that taxes be levied on income only . . ." The "poorer classes should contribute a smaller percentage of their revenue than the middle classes," however; and "these, again, a smaller than the richer classes." In other words, a just economic system, a "good and varied education, . . . an abundance of open-air recreation . . . , and other requisites of a wholesome life . . . [should] be supplied by taxes levied on the rich . . ." [Walras, 1954, p. 449. Marshall, 1926, p. 337; and 1890, pp. 282-283]

In view of what has been presented above, it is difficult to escape the conclusion that the architects of the neoclassical doctrine were motivated by "the faculty of sympathy, and especially that rare sympathy which enables people to put themselves in the place, not only of their comrades, but also of other classes." It was this attitude that compelled them "to determine not only what" the end of economic activity should be, "but also what are the best methods of a broad policy devoted to that end." [Marshall, 1956, pp. 38, 36]

B. *The Legacy of LAISSEZ FAIRE: The Concern of Keynes*

The period from the turn of the century to the middle of the 1930's was "The Years of High Theory" in economics. [Shackle] Those were the years in which the theoretical apparatus of the neoclassical paradigm was subjected to its first "articulation" by practitioners of "normal [economic] science." [Kuhn, p. 24]

The primary goal of the articulators was not to intensify "the light . . . [which] pure economics sheds . . . on social economics," however. Rather, they concentrated their efforts on the task of sharpening those purely analytical tools which the fathers of neoclassicism had devised for the purpose of determining "the optimal allocation of resources" in their model—"under conditions of perfect knowledge and a purely static economy." In the interwar years, neoclassical microeconomics was therefore a far cry from the social economics of Jevons and his coauthors. Unlike the latter, the former was not designed "to have . . . direct influence on political events, or economic policy." [Walras, 1954, p. 392; Farrell, p. ix; Little, p. 5]

Because of the profession's preoccupation with exchange processes in competitive markets, "the principles of *laissez-faire*" had powerful "allies . . . [in] economic textbooks." The writings of economists therefore lent respectability to the practice of *laissez faire* by the politically dominant middle class. It was to this continued policy of *laissez faire* in an advanced industrial economy that Keynes attributed the onset of the great depression which produced "the paradox of poverty in the midst of plenty." [Keynes, Vol. IX, 1972, p. 285; and 1936, p. 30]

According to Keynes, the economic order that emerged in the early 1930's had been shaped by "a vast and complicated industrial machine . . . [which] rendered possible . . . a far-reaching transformation of the economic structure" of society. One of the most fateful consequences of this transformation was that the economically relevant part of the population was divided into three classes: a "rentier" class of "speculative investor[s]" who own, "but do not manage," business enterprises; an "active business class" of "entrepreneurs" who manage, but do not own, the enterprises; and a class of "wage-earner[s]" who sell their "personal services" to the entrepreneurs. These "classes overlap, . . . but in the present organisation of society such a division corresponds to a social cleavage and an actual divergence of interest." [Keynes, Vol. II, 1971, p. 7; 1936, pp. 221, 158, 153; Vol. IV, 1971, p. 5; Vol. XIV, 1973, p. 120; Vol. IV, 1971, p. 26; 1936, p. 213; and Vol. IV, 1971, p. 4]

These conflicts had come about because *laissez faire* had fostered a pronounced "*inequality* of the distribution of wealth" so that the upper stratum of the rentier class received the lion's share of the national income. It was precisely this inequality "which made possible those vast accumulations of fixed wealth" which "distinguished" the age of rentier capitalism "from all others." But "this remarkable system depended for its growth on a double bluff or deception." [Keynes, Vol. II, 1971, p. 11]

> On the one hand the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of society into accepting, a situation in which they could call their own very little of the cake that they and nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little in practice. The duty of "saving" became nine-tenths of virtue and the growth of the cake the object of true religion. . . . And so the cake increased; but to what end was not clearly contemplated. . . . Saving was for old age or for your children; but this was only in theory—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you. [Keynes, Vol. II, 1971, pp. 11-12]

Given the unequal distribution of income and the propensity to save "so hugely" on the part of the upper middle class, it followed "naturally" that the "*collective* propensity . . . to consume" was such that when the community's "real income . . . increased, it . . . [would] not increase its consumption by an equal *absolute* amount, so that a greater absolute amount must be saved . . ." [Keynes, Vol. 11; 1971, p. 13; Vol. XIV, 1973, p. 271; and 1936, p. 97]

By the early 1930's, the gap between aggregate income and expenditures on consumption had become so wide that the sales of firms dropped disastrously. The entrepreneurs therefore based their "psychological expectations of future yield from capital-assets" on the assumption that "the most recently realised results will continue . . ." [Keynes, 1936, pp. 247, 51] In view of this, they cut back on their borrowings from the rentiers, reduced their investments, and laid off their workers in great numbers.

When the entrepreneurs' propensity to borrow weakened, the rate of interest dropped. As a result, the rentiers also became enveloped in "deep-seated melancholy" and assumed that "the existing state of affairs . . . [would] continue indefinitely . . ." This caused "a mass movement into cash" inasmuch as the financial community preferred "cash to holding a debt which yields so low a rate of interest." Given this attitude on the part of the rentiers, the central bank lost a large part of its "control over the rate of interest." [Keynes, Vol. II, 1971, p. 6; and 1936, pp. 152, 172, 207] Hence for all practical purposes, a floor was placed under the rate of interest. And this was fatal.

According to Keynes, the rate of interest establishes "a limit to the level of employment, since it sets a standard to which the marginal efficiency of a capital-asset must attain if it is to be newly produced." But given their pessimism, the rate of return expected by the entrepreneurs had "fallen more rapidly than the rate of interest . . . [could] fall in the face of the prevailing institutional and psychological factors . . ." And there was no reason to expect that the entrepreneurs might change their outlook in a setting in which "the propensity to consume is falling off" so dramatically. [Keynes, 1936, pp. 222, 219, 173]

The economy was therefore locked into a "resting place" of "chronic . . . sub-normal activity . . . without any marked tendency either towards recovery or towards complete collapse." As a result, mass unemployment had become "inevitably associated . . . with present-day capitalistic individualism." [Keynes, 1936, pp. 304, 249, 381]

Keynes was convinced, however, that "the world will not much longer tolerate" this situation. Hence he feared that "authoritarian state systems," similar to those in Germany, Italy and Russia, would be ushered in everywhere if nothing were done to reduce unemployment in the remaining democracies. In view of this, Keynes advanced a number of proposals designed to create the kind of "environment which the free play of economic forces requires if it is to realise the full potentialities of production." [Keynes, 1936, pp. 381, 379]

First and foremost, Keynes recommended that the "State . . . exercise a guiding influence on the propensity to consume" through a redistribution of income via the fiscal system. Such a redistribution was essential because a stage had been reached at which "the growth of wealth, so far from being dependent on the abstinence of the rich, . . . is [actually] impeded by it." [Keynes, 1936, pp. 378, 373]

Although necessary for a return to full employment, redistributional measures would not be sufficient to achieve this goal. The government would also have to take control of the investment function through "a somewhat comprehensive socialisation of investment . . ." By this Keynes meant the government's assumption of "an ever greater responsibility for directly organising investment" by means of indicative planning, "communal saving through the agency of the State," and provision of incentives for private enterprises. Beyond this, Keynes did not make out a case "for a system of State Socialism . . ." If the government were "able to determine the aggregate amount of resources devoted to augmenting the instruments [of production] and the basic rate of reward to those who own them, it will have accomplished all that is necessary." [Keynes, 1936, pp. 378, 164, 376, 378]

Keynes admitted that the "central controls necessary to ensure full employment will . . . involve a large extension of the traditional functions of government." But that was a requisite for "getting rid of . . . the objectionable features of capitalism," of which the rentier was one. Fortunately, the "rentier would disappear" together with the "casino" of organized securities markets if Keynes' recommendations were adopted. Obviously, "with the disappearance of . . . [the] rentier," and his replacement by the government as a supplier of investment funds, "much else in . . . [capitalism] would suffer a sea-change." As Keynes saw it, however, radical surgery had to be performed on the body economic if "freedom" and "individualism" were to be preserved through the restoration of full employment on a permanent basis. [Keynes, 1936, pp. 379, 221, 159, 376, 381, 380]

The general theory which Keynes constructed in 1936 was "in essence a translation into [theoretical] terms . . . of [his] perception of historical discontinuity." [Skidelsky, p. 93] This theory was intensively articulated by the so-called "Keynesians." By virtue of their concentration on analyses of the interrelationships among the variables of the model built by Keynes, most of the works of the Keynesians are ahistoric, however. Hence they largely disregard the subject of reform which Keynes emphasized because of his conviction that it was historically evolved institutional perversities that were responsible for the onset of the great depression. Thus instead of carrying the mantle of reformers, the Keynesians cast themselves in the role of managers who "loosen" or "tighten . . . monetary and fiscal tourniquets" in order to "provide the essential stability" which an otherwise relatively hale economy may occasionally fail to achieve. [Heller, p. 9] It has therefore been claimed that the "Keynesian Revolution still remains to be made, both in teaching economic theory and in forming economic policy." [Robinson, p. 131]

IV. CONCLUSION

What "profit" can a practitioner of social economics "gain from visits to the lumber room" where the economic ideas of the past are stored? Plenty, provided that he does "not stay there too long." [Schumpeter, p. 4]

In the first place, he will become aware that those who founded yesterday's and today's economic theories were also practitioners of social economics.

Secondly, he will discover that the succeeding generations of founders conceptualized the economic order and the causes of widespread poverty in different terms. Hence they devised different theories for the purpose of finding cures for the social disease of poverty.

Thirdly, he will find that, with the possible exception of the followers of Smith, the articulators of each major paradigm tended to lose sight of the normative foundations and purpose of the paradigm in question. Most of them conceived of themselves as sharpeners of received analytical tools rather than as users of such tools. As a result, the bulk of present-day economics is comprised of a normal science which focuses its "attention upon a small range of relatively esoteric problems . . ." [Kuhn, p. 24]

The lesson of these impressions is fairly clear: Given the fact that the world of today is different from the worlds of 1776, 1871 and 1936, the practice of social economics may require a new conceptualization of the socioeconomic order and of the welfare-obstructing problems it may harbor. But as conventionally practiced, it is "[n]o part of the aim of normal [economic] science . . . to call forth new sorts of phenomena; indeed those that will not fit the [received analytical] box are often not seen at all." [Kuhn, p. 24]

Hence I rather suspect that one of the greatest contributions which the practitioners of social economics could make today would be to call forth new phenomena.

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