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A Preliminary Essay on Ideology
and Economics

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1. Sometimes when studying a segment of the development of economic thought one finds himself struggling with questions such as how and why this idea or analytical framework was developed? What was the motivation of its creator? One way at these questions is by studying the environment surrounding the scholar who developed the 'innovation'. More specifically, the social, historical, and intellectual environments.

2. The essay is organized as follows: First, I discuss and look for examples for the three types of environments listed above. Then a suggestion will be made that these three types of environments determine the scholar's 'ideology' and argue that ideology determines how the scholar sees the world or, what are (1) the 'stylized facts' he is trying to explain and what is (2) the 'scheme of causation' which, for him, relates such facts. Finally, a comparison between Keynes's and Kalecki's contributions to economics is presented using these general ideas.

3. The historical environment is the most ample of all three: it refers to the historical moment (in both time and space) in which the scholar lived. The stage of economic development (in its structural sense, that is, the development of the forces of production), the political institutions and the cultural elements surrounding the scholar characterize his historical environment.

History influences the formation of ideas. On the other hand, it can be argued that the ideas of Marx or Keynes changed the path of history; and this is quite a non-controversial point. What is being argued here is that the historical environment in which Marx and Keynes lived affected the way they saw the world and the framework to explain it they have put forward and that, in turn, their ideas influenced history. A sort of dialectical relationship joins history and the formation of ideas.

There are some very clear examples of the influence of history on the development of economic ideas. Hicks, in his *Economic Perspectives* suggests that major contributions to monetary theory can be seen because of the historical environments economists were facing. Thus, Hume's "classical quantity theory" is quite adequate to describe an economy where the supply of money (metal money) is exogenously given; the role of banks in the 19th century's credit cycles certainly influenced Wicksell's relation between the "market" and "natural" rates of interest; Keynes' effective demand principle and, indeed, the method on which his theory of employment was embedded were affected by the world crisis of the 1930's.

Another example is given by Meek who related the decline of Ricardian Economics in the 1830's to "a number of elements in his (Ricardo's) system (which) seemed to set limits to the prospects of uninterrupted and harmonious progress under capitalism" (Meek, p. 69). In this case, a particular system of ideas seems to be challenging history and thus – suggests Meek – is defeated.

A final and interesting example is the work of J. Steindl *Maturity and Stagnation in American*

Capitalism (1952). Steindl suggests that the transformation of most of U.S. industries from a competitive to an oligopolistic structure was an important cause for a stagnationist tendency of the economy. Probably influenced by the experience of the inter-war period, one of Steindl's most important assumptions was that firms did not diversify. The U.S. economy went through a period of crisis during the 1930's but it recovered after WWII. In the 1970's Steindl (1979, 1980) recognized that his results did not hold because of his assumption of non-diversification. Firms not only diversified in the post WWII, they also went abroad which is yet another way of realizing surpluses.

4. I now turn to the intellectual environment by which it is meant the influence on the scholar's work of the people he met, the books he read and the professors he had. Unlike the historical environment, here, the scholar has a degree of choice. To what extent he can choose, however, it is difficult to say since he will usually be quite influenced by his social environment (see point 5). Other elements such as the historical environment and the psychology of the individual also, have influence on the choice of his intellectual environment.

However, if we concentrate on the 20th century experience of the Economics profession there is an element, which I consider the essential determinant, that is to say, academicism. Today's contributions to economics are constrained by the rules of the academy. In addition, these are quite rigid. Continuism and inertia, especially when the relevance of assumptions are concerned, characterize the contemporary work in economics.

A clear example of the role of academicism is given by the rise of new-classical economics. A large proportion of Ph.D. dissertations written in U.S. departments of economics are somehow associated with the rational expectations debate. Keynesian economics lost the battle against the new-classical offensive in the 1970's notwithstanding Tobin's (1980, ch. 2) insistence on the irrelevance of the assumptions of rational expectations and wage and price flexibility. It is my belief that the Keynesian counter attack would have been more effective had it point out the differences between the quantity theory of money (underlying the new-classical propositions) and Keynes's principle of effective demand. In any case, the fact of the matter is that not even the (ir)relevance arguments put forward by Keynesians seem to have appealed to the graduate students of the 1980's. In relation to the assumptions underlying the rational expectations models, Lucas is the first to admit, "Ph.D. students are pretty passive; they'll take anything" (Klamer, p. 47). Keynesian economics is dead and there is no reward in the American academy for those who try to resuscitate it.

5. According to Marxian tradition, ideas are socially located: an individual's view of the world is quite influenced and, indeed, constrained by his social class. His social environment determines his ideology, that is, his (distorted) view of reality. In this sense, his view of reality is simply its

appearance, a fetish. According to Marx, after 1830 all bourgeois economists, with minor exceptions, were no more than “hired prize-fighters” who, following their class interests provided unapologetic view of capitalism:

Thenceforth, the class-struggle, practically as well as theoretically, took on more and more outspoken and threatening forms. It sounded the knell of scientific bourgeois economy. It was thenceforth no longer a question, whether this theorem or that was right, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested inquirers, there were hired prize-fighters; in place of genuine scientific research, the bad conscience and the evil intent of apologetic (Marx, p. 15).

The Marxian notion of ideology is quite narrow and one that will not be employed here. It leaves no space for people with the same social location having different views of the world. The social location or social environment is a conditioner of someone's ideology, but it is not the only one. Schumpeter makes this point quite clearly in his *History of Economic Analysis*:

Social location undoubtedly is a powerful factor in shaping our minds. But, this does not amount to saying that our minds are exclusively shaped by the economic elements in our class position or that even so far as this is the case, they are exclusively shaped by a well-defined class or group interest (Schumpeter, p. 36).

The term ideology will be used here in a broader sense: it will be the result of three major elements influencing one's ideas, namely the historical, intellectual and social environments. It should be noted that, as much as the Marxian view of the role of ideology in shaping one's ideas would disagree with the above notion, the modern neoclassical approach to economics would also disagree. This would not be the case of Marshall who saw an important role being played by institutions and historical processes but by Samuelson or Stigler for whom economic laws are immutable over time. Stigler, who considers that “the nature of economic systems has changed relatively little since Smith’s time” (Stigler, p. 23) would certainly not agree that history is as important as it is suggested in this text to study the development of economic thought.

If ideology is defined in this broader sense, it is reasonable to argue that Science and ideology should not be separated. Different ideologies shape different views of the world and give rise to different theories of why the world functions the way (each theory) says it functions. The point that Science and ideology should not be put apart is very clearly argued by Marglin:

In my judgement, the opposition of truth and ideology is a methodological error. What is ideology, after all, but the unproven (though not necessarily unprovable) assumptions, beliefs, and values that must – at our current state of knowledge at any rate – underlie *any* intellectual inquiry, or for that matter, any form of contemplation or action? (1984, ch. 19).

6. How does ideology materialize in an intellectual contribution to economics? It materializes through the ‘stylized facts’ and ‘scheme of causation’ of the contribution. The former is more than a pre-analytic element, which defines what phenomena is to be explained. It should be clear that stylized facts are not the same for everyone. One example, curiously enough, is related to Kaldor’s stylized facts about the growth process of industrialized economics. One of them is that the share of wages in income is fairly stable. Sweezy & Baran (p. 73) argue this point and try to show that it is precisely the fall in the share of wages in income that is the cause of the stagnationist tendency of mature economies. This shows that Kaldor’s stylized facts are not Baran’s and Sweezy’s stylized facts.

The scheme of causation is the essential link between ideology and Science in economics. It is the central part of any argument (although in many occasions it is not stated explicitly) since it says “how” and “why” does things happen. Examples: in Ricardo’s theory of distribution there is a stagnationist tendency because profits are squeezed as poorer land is incorporated and the wage is fixed. In Wicksell’s “cumulative process”, prices rise because, according to banks’ policies, the market rate of interest is lower than the natural rate. In Marx’s accumulation model, the rate of growth falls whenever wages rise (given a temporary exhaustion of the reserve army) because accumulation is driven by profits.

7. There is reasonable agreement about the fact that Keynes and Kalecki independently developed the principle of effective demand. It is also known that income distribution played a major role in Kalecki’s scheme and had little importance for Keynes. Furthermore, causality in Kalecki runs from income distribution to the level of output whereas in Keynes it runs the opposite way. The question is: to what extent does the study of the environment surrounding Keynes and Kalecki help to understand the differences and similarities of their work?

8. I begin with the social environment and Keynes. Keynes was a member of an upper-class family in Great Britain, “brought up in the intellectual atmosphere of Cambridge where his father, John Neville Keynes, taught logic and political economy” (Feiwel, p. 47). He went to Eton and King’s College in Cambridge. He was a member of the very special Bloomsbury group, which undoubtedly influenced his ideas.

Joan Robinson says that “Keynes was thoroughly disgusted with latter day capitalism for moral and aesthetic reasons, but he was by no means a socialist” (1980, p. 98). That he was no socialist can be concluded from Keynes’s political writings in the 20’s. In fact, the impression he gives is that he was politically uncomfortable: the Conservative Party was too conservative and based on *Laissez-Faire* ideas on which he did not believe any more (Keynes, 1931, p. 312); the Labour Party was too

catastrophic and, furthermore, “it is a class party, and the class is not my class” (1931, p. 324). The Liberal Party did not have any strong ideas that really appealed to him.

Keynes, again according to his political writings, also gives the impression of being uncomfortable with what he saw. In Russia, Leninism was a “combination of religion and business” (1931, p. 297), which he considered to be inefficient. And he had strong personal reasons to have such a belief as the following assessment of Marx’s *Capital* attests:

How can I accept a doctrine, which sets up as its bible, above and beyond criticism, an obsolete economic textbook which I know to be not only scientifically erroneous but without interest or application for the modern world? How can I adopt a creed which, preferring the mud to the fish, exalts the boorish proletariat above the bourgeois and intelligentsia who, with whatever faults, are the quality in life and surely carry the needs of all human advancement (1931, p. 300).

Keynes considered Marxian views excessively dogmatic and clearly thought that rational Solutions were superior to revolutions. The following quote from Keynes's review of Trotsky’s *Where is Britain Going* lends support to this view:

“An understanding of the historical process, to which Trotsky is so fond of appealing, declares not for, but against, Force at this juncture of things. We lack more than usual a coherent scheme of progress, a tangible ideal. All the political parties alike have their origins in past ideas and not in new ideas – and none more conspicuously so than the Marxists. It is not necessary to debate the subtleties of what justifies a man in promoting his gospel by force; for no one has a gospel. The next move is with the head, and fists must wait” (1933, p. 279).

In Great Britain, the economy was in a long period trend of stagnation – something obvious to any Cambridge economist since at least 1907 when Marshall wrote “Social Possibilities of Economic Chivalry” – and the only solution, according to Keynes, was the control by the government of credit (1931, p. 318) and of the decision to invest (1936, p. 164). These suggestions carried the phantom of socialism and Keynes had this very clear in his mind:

I am in favour of an admixture of public works, but my feeling is that unless you socialize the country to a degree that is unlikely (in the U.S.), you will get to the end of the public works program, if not in one year, in two years – quoted from Patinkin (1981, p. 292).

Keynes was no socialist and “social justice” was not his main concern. This could very well be the reason why Joan Robinson refers to “moral and aesthetic reasons”. Keynes had an individualistic view of the world, not a social one. This seems to be a heritage of the Bloomsbury group where individualism was taken seriously, as Keynes himself puts it when referring to Moore’s *Principia Ethica* in his “My Early Beliefs”:

We accepted Moore's religion, so to speak, and discarded his morals. Indeed, in our opinion, one of the greatest advantages of his religion was that it made morals unnecessary – meaning by religion one's attitude towards oneself and the ultimate and by morals one's attitude towards the outside world and the intermediate (1933, p. 242).

Keynes was, therefore, a reformist, or according to the way he defined his own ideas (1931, p. 335), a new liberal. He believed that *rational* ideas was the source of progress and, furthermore, that ideas determined history as he put it at the end of his *General Theory*:

Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scriber of a few years back (1936, p. 383).

9. Kalecki had a different social environment and quite different political views. He was born in Poland in a family who had financial difficulties; he had to stop studying because there was not enough money. After being a journalist, he went to work at the Research Institute of Business Cycles and Prices. There is not the same amount of materials about Kalecki's life as there is about Keynes; there is not either purely political pieces by Kalecki. But some of his economic pieces give a flavour of his political ideas.

His "Political Aspects of the Business Cycles" is a good example. Written in 1943, he shows that by rationally solving the problem of unemployment, the problem was not actually solved. This is so because, according to him, permanent full employment would make the social antagonism between workers and capitalists reach a critical situation. With permanent full employment,

The social position of the boss would be undermined and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension (1943, p. 141).

Kalecki was a socialist and as such suffered with McCarthyism in the U.S. when he was working for the United Nations. His political view of the world is quite different from Keynes's as the following quotation from Steindl attests:

The basic inspiration of Kalecki's work was his socialist conviction: his innate revulsion at the inequities and brutalities of the existing capitalist society and his wish for a better system (1980).

10. Keynes and Kalecki shared the same historical environment. They both wrote under the influence of the 1930's great depression – although Kalecki was much younger than Keynes. What makes their name so linked together in the history of economic thought is the fact that both developed

the principle of effective demand, that is, the principle according to which aggregate demand (investment and consumption) determines the level of employment and output.

The real *differentia* of their theory as compared with the orthodox economic doctrines of the 1920's was the independent role given to investment demand and the equilibrating mechanism (the multiplier) according to which income adjusts to any change in investment in such way that, in equilibrium, the value of investment and saving are equal.

11. If their historical environments coincide, their intellectual environments are completely different. Keynes was a Cambridge economist whose background was based on the work of Marshall. Keynes's theory of distribution was derived from the Marshallian foundations on which his theory of aggregate employment was based. The real wage is equal to the marginal product of labour given the assumptions of profit maximization cum perfect competition. Unlike the classical scheme, according to which supply and demand for labour determine the real wage and the level of employment, the latter in the *General Theory* depends on the level of aggregate demand. Once the level of employment is determined, the real wage is equal to the product of the last (marginal) unit of labour employed. Distribution is essentially endogenous.

For Keynes, the stylized facts were that, whatever happened to the economy, the relevant decisions had been made in the City. In particular, investment demand, the core determinant of aggregate demand, depended on the interest rate and entrepreneurs' long period expectations – both heavily influenced by the businessmen psychology. Causality runs from the levels of output and employment as determined by aggregate demand to income distribution.

Kalecki's development of the principle of effective demand is quite a different story; but Kalecki's intellectual environment was completely different. His theory of employment and distribution is based on Marx's schemes of reproduction and the ideas about the realization of the surplus developed by Rosa Luxemburg and Tugan-Baranovsky. For all three (Marx, Luxemburg and Tugan) the economy is divided into sectors of production and the relation between the size of these sectors (the structure of the productive sphere of the economy) and the different sources of income (wages and profits) plays a major role in the reproduction and stability of the system.

In the Research Institute of Business Cycles and Prices (in Poland), Kalecki worked with Ludwig Landau, an expert in national accounting and income distribution. About this experience, Kalecki wrote that “[i]t might be worth recalling that our work was probably the only attempt in the capitalist world to establish a detailed distribution of income according to classes” (Feiwel, p. 23).

Kalecki's stylized facts were that there exists a relationship between the composition of industry and the composition of demand ultimately determined by the distribution of income. In the short

period the structure of industry is given. Distribution effects aggregate demand especially because different classes have different propensities to spend their current income. Therefore, together with investment demand, the distribution of income -between workers and capitalists, determine the level of aggregate employment and output.

12. The examples of Keynes and Kalecki show that ideology, as determined by the historical, social and intellectual environments, affects an economist's (or any scholar's for that matter) contribution. Unlike some other Sciences (physics being the example par excellence), economics is very much influenced by the ideologies of those who contribute for its 'development'. In particular, contemporary contributions are quite dominated by the intellectual dimension of ideology in which academicism plays an important part. The fact that economics is not devoid of ideological influences does not reduce its scientific status; it only reveals the precarious state of our knowledge.

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