Inequality, Poverty and the Commitment of the Economists*

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Summary

Problems like poverty, inequality and wealth distribution have been present ever since political economy was born. Classics, Socialists and Keynesians did not ignore their intellectual responsibilities and these themes were often present in their books. Other theoretical paradigms (like the Neoclassical or Monetarist ones) more often than not seem to forget these topics and the social responsibilities of the economists.

In the late nineteenth century, the Marginal Revolution meant a profound methodological and epistemological change.

The aim of the present paper is to discuss the importance of that change, to reflect upon the social responsibilities of the economists, and to advocate for a stronger commitment of economists to the solution to the economic problems of our society.

Key words: Positivist science, Keynesians, Socialists, Classics, Neoclassic

JEL classification codes: B1

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Contents: 1.Introduction. 2. A few words on poverty and inequalities in the history of economic though. 2.1. Classics and Socialists. 2.2. The "Marginal Revolution". 2.3. The Twentieth Century. 3. Commitment of the Economists.

1. Introduction:

Many years ago, Joan Robinson wrote: *"For many years I have been employed as a teacher of theoretical economics; I would like to believe that I earn my living honestly, but I often have doubts. I am concerned particularly for India and other developing countries whose economic doctrines come to them mainly from England and in English. Is what we are giving them helpful to their development?"* [1]

In that paper Joan Robinson discussed problems in economics teaching (ideological biases) and explained how she would like to reform teaching. But, implicitly, she was also talking about another thing - about the responsibility of economists as teachers. First of all, she was deeply worried about what kind of economic theory she was giving her students. In a more general sense, she was also thinking about the real responsibility of economists and about their social responsibility. And this preoccupation is not an analytic question related to economic theory; it is more about

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[1] Robinson (1960). Page 174

the social responsibility of economists, not only as teachers or as theorists, but also as intellectuals.

The 20th Annual Conference of the European Society for the History of Economic Thought (ESHET 2016) has as main theme: "Inequalities in Economic Thought"; but inequality is not only a theoretical problem for economists.

Inequality and poverty are human and moral problems and political economy must help solve these economic and social problems. Economists cannot close their eyes (many of them didn't) to these problems of our society.

In the history of economic thought we find a great number of authors talking about inequality, and the recent controversies over the growing degree of inequality in the world have brought the topic to debate among economists and politicians. However, this is not always the case, and (sometimes) economists seem to be forgetting their social responsibilities.[2]

2. A few words on poverty and inequalities in the history of economic thought.

2.1. Classics and Socialists:

Although sometimes neglected, problems like poverty, inequality and wealth distribution have been present in economic literature ever since political economy was born. The "classical economist", a very committed thinker, did not ignore their intellectual responsibilities and their opinions about poverty and inequality are in their economic books.

For example, when Adam Smith criticized the mercantilist doctrine of the balance of trade, and advocated in favour of commerce with France, he wrote:

> *"France is a much richer country than North America; though, on account of the more <u>unequal distribution of riches</u>, there is much more <u>poverty and beggary</u> in the one country, than in the other".* [3]

David Ricardo thought that the object of Political Economy was to discover the "distribution laws":

> *"...the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different...To determine the laws which regulate this distribution, is the principal problem in Political Economy...".*[4]

And when T.R. Malthus criticized the "Poor Laws" (and advocated its repeal) he was just giving his opinion that these laws were not a good answer to poverty and inequality problems:

> *"To remedy the frequent distresses of the common people, the poor laws of England have been instituted; but it is to be feared, that though they may have alleviated a little the intensity of individual misfortune, they have spread the general evil over a much larger surface".*[5]

Finally, the "eclectic" J.S.Mill was the classic economist that showed more clearly that capitalism has a great problem with wealth distribution, poverty and inequality. And distribution laws were not "physical truths":

> *"Production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them... It is not so with the Distribution of wealth. That is a matter of human institution solely"*.[6]

[2] Very close to this situation is the debate about Economics as a moral science.
[3] Smith (1776) [1904], page 460. Underlining added.
[4] Ricardo (1817) [1951] Preface. Page 5.
[5] Malthus (1798) page 24.
[6] Mill (1848) [1909] page 199-200.

Since the third decade of the nineteenth century, a heterogeneous group of authors called Ricardian Socialists discussed capitalist inequalities.[7]

The second half of the nineteenth century was a time with abundant opinions and controversies about poverty and inequality among intellectuals. Socialist thinkers, some of which began as liberals, were seriously concerned about the ostensible injustices of capitalist distribution.

For example, Sismondi thought that inequality was unavoidable under capitalism and pointed to the impoverishment of workers and to the inevitability of economic crises.

Proudhon with his *"La propriètè, c'est le vol",* was not denying private property, he was actually denouncing the injustices and inequalities of the capitalist system of his time.

The "technocratic society" of Saint-Simon, the "phalansteries" that Fourier introduced or the cooperative ideas of Owen, among many other, were attempts to help humanity solve the problem of poverty and inequality.

And finally, K. Marx, who fought for and dreamed all his life about the end of capitalism, described and tried to explain the reasons for inequalities as an unavoidable consequence of the capitalist system with its "exploitation of man by man".

Despite their diverse personal views, all these authors analysed the economic problems in question and their socio-political relationships with their consequences.

2.2. The "marginal revolution"

In the late nineteenth century, the Marginal Revolution meant a profound change. It was a methodological and epistemological change.

W. S. Jevons with his *"Theory of Political Economy* [8] , Leon Walras with his "*Èlèments d'èconomie politique pure, ou thèorie de la richesse sociale"* [9] and Carl Menger with his *"Principles of Economics"* [10] are the names associated with this paradigm shift. And Alfred Marshall, who was teaching similar ideas in Cambridge, published his *Principles of Economics"* in 1890[11]. Deane has pointed out that:

> *"As economics became more professionalized and more academic, its innovating theorists tended more and more to focus on theoretical problems and to abstract their model from the real world."* and *"...although individual neo-classical theorists may have been, and some certainly were, as strongly activated by political and social objectives as any of their predecessors among classical economists, they concentrated most of their attention qua economists on abstract theoretical issues which had no immediate connection with the urgent contemporary questions of practical policy.*[12]

The new paradigm meant the birth of a science whose main purpose was to optimize the allocation of scarce economic resources and to maximize the functions subject to some restrictions. It was a "positivist science", as it was considered by John Neville Keynes in *"The scope and method of political economy".*[13]

> *"..., if this view be correct, we ought at least to recognise as fundamental a positive science of political economy which is concerned purely with what is, and which seeks to determine economics laws. It is a further question whether or not we should*

[7] For example Hodgskin (1825) [1922] , Bray (1839) , Thompson (1824) and Gray (1825)
[8] Jevons (1871)
[9] Walras (1874)
[10] Menger (1871)
[11] Marshall (1890) [1920].
[12] Deane (1978) page 99, 100.
[13] Keynes (1890) [1897] page 44

also recognise, as included under political economy in the widest sense - but distinct from positive science - (a) a branch of ethics which may be called the ethics of political economy, and which seeks to determine economic ideals; and (b) an art of political economy, which seeks to formulate economics precepts." [14]

In the same sense L. Robbins published a book, in 1932, about the nature of economic science that reinforced the idea of a "positivist science" with ideological independence; Economics is neutral between ends, and wrote:

"Economics, we have seen, is concerned with that aspect of behaviour which arises from the scarcity of means to achieve given ends. It follows that Economics is entirely neutral between ends; that, in so far as the achievement of any end is dependent on scarce means, it is germane to the preoccupations of the Economist. Economics is not concerned with ends as such".[15]

2.3. The Twentieth Century:

At the beginning of the 20th century the dominant paradigm of academic economics was the neoclassical vision and the equilibrium theory (Marshallian partial equilibrium and Walrasian general equilibrium).

The unrealistic character of some assumptions was attacked by many economists. Sraffa criticized the perfect competition assumption and demonstrated that it was incorrect.[16] Joan Robinson was also one of the critics of these assumptions and published *"The Economics of Imperfect Competition"*.[17] In America Edward Chamberlin also criticized the perfect competition and published "*Theory of Monopolistic Competition".*[18]

Furthermore, Schumpeter did not accept the assumption of constant technology and wrote about the importance of "innovation" to understanding the capitalistic evolution.[19] These views, beyond their differences, questioned the unrealistic character of the dominant paradigm.

Finally, the idea of a system, which under competitive conditions, determines the perfect allocation of resources and ensures full employment was heavily criticized by Keynes. The unrealistic pre-Keynesian theory was wrong to explain the problems that Keynes tried to solve, because:

"…the characteristics of the special case assumed by the classical theory happen not to be those of the economic society which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience.".[20]

For the present paper, despite other themes that carried out Keynesian revolution, it is very important to point out that Keynes is one of the best examples of an economist with a strong commitment to the problems of his time. He *"... was not an ivory-tower theorist. His theorizing was controlled by real-world events"*.[21]

John Maynard Keynes was very clear about this issue, all his intellectual life led him to understand and solve real problems and to defend his country and his people.[22]

[14] Keynes (1890) [1897] page 36.
[15] Robbins (1932) page 23. (emphasis added)
[16] Sraffa (1926).
[17] Robinson (1933).
[18] Chamberlin (1933).
[19] Schumpeter (1911) [1982]
[20] Keynes (1936), Chapter 1, page 4.
[21] Quoted in Skidelsky (2015). Introduction. (IV).
[22] Mention should also be made of Major Clifford Hugh Douglas (1879-1952). His ideas inspired the Social Credit economic reform movement. (Thanks to the anonymous referee who suggested it to me)

Lionel Robbins wrote to Keynes's widow, Lydia Lopokova, that her husband:

"...has given his life for his country, as surely as if he had fallen on the field of battle".[23]

John Maynard Keynes dealt with the complex job of building a new theoretical paradigm of economic theory. The new ideas changed the role of the state in the economy. Active policies stimulating employment took the place of the "religion of the laissez-faire".

But the evolution of economic ideas, which is nothing more than the birth, growth and death of paradigms, continued. The Keynesian Revolution, which displaced the recommendations of non-state intervention in the economy, had its heyday in the post-World War II period and reached its decline towards the late eighties of the past century, when it seemed that nobody was able to defend the Keynesian ideas anymore.

Keynesian policies lost their prestige and the theoretical framework developed by Keynes was gradually modified or abandoned. The new neoliberal paradigm took its place and perhaps these ideas will dominate a great part of the academic minds for some time in the future. The idea of a "neutral" discipline is very strong today. Milton Friedman, based on Keynes's father's famous book[24], gave the fundamental argument of this approach and concluded that:

"Positive economics is in principle independent of any particular ethical position or normative judgements...it deals with 'what is', not with ' what ought to be.' ...In short, positive economics is, or can be, an 'objective' science, in precisely the same sense as any of the physical science".[25]

Although there are many economists that do not ignore the ethical character of economics (for example Sen[26]) this issue seems to be not very relevant in the works of mainstream economics. Moreover, it is obvious that economics cannot dissociated from ethical and moral questions.[27]

3. Commitment of the Economists

Many of Keynes's ideas, right in the past, today have lost their ground; but what should remain as an example is Keynes's commitment to the reality of his time and his conviction that economists have an obligation to find answers to improve the quality of life.

As Keen wrote:

"What we believe about economics therefore has an impact upon human society and the way we relate to one another. Its effects upon interpersonal relations matter" [28]. Ultimately, economic theory as a "scientific" discipline is only relevant if it is linked to the historical context; if not, it is just a set of abstract arguments, sometimes sophisticated, but which are in fact simply "empty generalizations".

As Georgesçu-Roegen wrote:

"The statement that fundamental principles of economies are universally valid, therefore, may be true only as their form is concerned. Their content, however, is determined by the institutional setting. And without this institutional content, the principles are nothing but 'empty boxes' from which we can obtain only empty generalities".[29]

[23] Skidelsky (2015). Introduction (II).
[24] Keynes (1890) [1897]
[25] Friedman (1953) [1966] page 4
[26] Sen, (1987).
[27] Boulding(1969)
[28] Keen (2001), page 7.
[29] Georgesçu-Roegen (1966), pp 109-110.

Too often economists are entertained with "stylized" models that explain little or nothing about what actually happens in our economy. Often economists prefer to bypass the analysis of the fundamental problems of the economy under the guise of an apparent "neutrality".

An intellectual behaviour that "runs away" from the real problems ends up being a sterile exercise that does not contribute to society. Some theoretical paradigms of economics resemble, sometimes dangerously, a mere justification of the dominant policy.

Stiglitz ended his Nobel lecture with these words:

> *"We as academics have the good fortune to be further protected by our academic freedom. With freedom comes responsibility: the responsibility to use that freedom to do what we can to ensure that the world of the future be one in which there is not only greater economic prosperity, but also more social justice".* [30]

With freedom comes responsibility and this responsibility is to help with our ideas and theoretical approaches in order to solve poverty and inequality issues all over the world.

This is not just an "academic" or a "technical" responsibility, it is a human obligation and:

> *"…the adherence to humanism, the insistence on the principle that the quest for human advancement requires no scientific or logical justification, constitutes what might be called the axiomatic foundation of all meaningful intellectual effort, an axiomatic foundation without the acceptance of which an individual can neither consider himself nor be thought of as an intellectual.* [31]

Economists should remember Keynes' words, who ninety years ago in his Tract of Monetary Reform (1923), wrote:

> *"Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is past the ocean is flat again".* [32]

There is no need to be a "Keynesian economist" to agree with the words of Keynes quoted above, one must only be a sensitive person and an honest intellectual.

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[30] http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2001/stiglitz-lecture.pdf. , page 525
[31] Baran (1961)
[32] Keynes (1923), page 80.

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We asked experts to use this list by economist Tim Smeeding as a sample and to offer their ideas on how to dramatically reduce poverty and inequality in America. We hope you will use these lists as a resource to educate yourself and others, and that you will return here in the weeks and months ahead as we update this post with more lists from more contributors.Â Valerie Wilson: Top 10 Ways to Address Income Inequality. Jared Bernsteinâ€™s Top 10 to Address Economic Inequality. (Authorâ€™s note: many of these ideas fall under the heading of achieving full-employment in the job market, such that the matchup between the number of jobs and job-seekers is very tight. This is an essential intervention for both real wage stagnation and inequality.) Some economists conclude inequality is beneficial overall for stimulating growth, improves the quality of life for all members of a society, or is merely a necessary part of social progress. Other economists claim wealth concentrations create perpetually oppressed minorities, exploit disadvantaged populations, hinder economic growth, and lead to numerous social problems. The Benefits of Economic Inequality. Inequality Drives Growth.Â The childrenâ€™s future earning potential decline and the likelihood increases the child and the family continue to live in poverty.[64]. In unequal societies, government support tends to decline for public education programs. Economics of Poverty discusses analysis of the Pros to Economics of Poverty, Analysis of the Cons to Economics of Poverty and recommendations.Â As such, poverty is considered as inevitable. However, prominent thinkers are of the view that poverty is the primary reason for economic development and progress. The prominent thinkers found it necessary to develop policies that would protect people from shocks associated with poverty and ensure that social stability is maintained. The traditional policy debate provided for an option of identification of the poor by focusing on consumer preferences, income generated and the demand for the commodities available in the market (Barrett & Carter, 2013). Inequality, Poverty and the Commitment of the Economists Discussant: Rustem Nureev Kevin Christ. Distribution through the lens of Wilhelm RÃ¶pkeâ€™s Economic Humanism Discussant: Alberto Fierro. Parallel session A3 â€“ Room 307 Vices and virtues in a market economy â€“ (Chair: Laurent Jaffro) Ragip Ege and Herrade Igersheim. â€˜Reason withinâ€™, â€˜Reason withoutâ€™ and Virtue Return on Smith in the light of Kant and Foucault Discussant: Nikola Regent Nikola Regent Guicciardini and Economic Inequalities Discussant: Richard Van den Berg Claire Pignol and BenoÃ®t Walraevens Rousseau and Smith on envy in commerc It also discusses income inequalityâ€”how economists measure inequality, why inequality has changed in recent decades, the range of possible government policies to reduce inequality, and the danger of a tradeoff that too great a reduction in inequality may reduce incentives for producing output. Comparisons of high and low incomes raise two different issues: economic inequality and poverty.Â In the United States, the official definition of the poverty line traces back to a single person: Mollie Orshansky. In 1963, Orshansky, who was working for the Social Security Administration, published an article called â€œChildren of the Poorâ€ in a highly useful and dry-as-dust publication called the Social Security Bulletin.