Econ 884/690

The History of Modern Microeconomics
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Lecture 2: Changing Contours

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The State of Play, Circa 1930

- ‘Neoclassical’ economics had married classical emphasis on production and costs with marginalist emphasis on demand-side issues.
  - Market structure analysis emphasized competition and monopoly.
  - Welfare issues were gaining some attention (but only some).
- Pluralism and peaceful co-existence of inter-war economics.
- Measurement concerns beginning to enter the picture.
  - How to measure, how to analyze.

Key Events Context

- Great Depression (1929 – 1939)
  - Also had effects on ‘micro’ policy side
  - *Neoclassical* rethinking about how well the competitive model described reality
  - Cowles (1932)
    - Fusion of businessman unhappy with economic forecasting and a small group of economists interested in quantitative analysis
    - Forum for advances in quantitative methods/analysis (first) and pure theory (second)

Key Events Context

- World War II (1939/41 – 1945)
  - Émigrés
    - The U.S. importing great minds from Germany, USSR, …
  - Planning: Resource allocation, price controls
    - Economists at the heart of these efforts (OPA, etc.)
    - Illustrated the possibilities of governmental controls vs markets
  - Statistical analysis
    - Development of techniques as part of war effort—economists' role

Key Events Context

- Cold War (1947 – 1991)
  - RAND
    - Cross-disciplinary exposures
    - Tools and techniques—e.g., game theory, linear programming
- The Great Society/Vietnam War (1960s)
  - The rise of economic expertise across government
- The Conservative Counter-Revolution (late 1970s –)
  - Benefit-cost analysis solidified

Economics is What Economists Do: Evolution

- Robbins and Friedman essays
  - Choice under scarcity—resource allocation
  - Prediction as test of theory
- Centrality of economic theory as a *modeling* exercise
- *Mathematical* tools:
  - Percentage of articles using math increased from zero in 1920 to 40 percent in 1960
  - Roughly 80 percent of theoretical articles using math by 1960.

Economics is What Economists Do: Evolution

- Theory as king for a very, very long time.
  - The growth of *quant*/empirical analysis and methods (incl. experimental)
  - Theory + empirical → Empirical + (maybe) theory
- The development of applied fields
  - “Subjects” become fields
  - Specialized field journals
- Expanding boundaries
- *JEL* codes as tracking devices

Who Is Doing Economics?

- Émigré economists of the 1930s and 1940s
  - Huge percentages of leading minds from German- and Russian-influenced areas.
  - Supported by Rockefeller Foundation and other funders.
  - Landed at many places, but concentrations at The New School and Roosevelt University in particular.
  - Scholars, but also non-scholars whose children became prominent scholars.
    - Multi-generational loss to European economics.

Who Is Doing Economics

- Émigré economists (cont):
  - Kuznets, Domar, Modigliani, Hurwicz, Scitovsky, Grilliches, Koopmans, Lange, Haavelmo, Marschak, Morgenstern, Leontief, …
  - Contributed mightily to methodological developments: econometrics and mathematization of the subject.
    - But also helped to revolutionized or stimulate several fields—e.g., public finance (Musgrave), development (Hirschman and others)
  - Late 1960s citations to Germanic émigré economists exceed all those to economists at Harvard + MIT + U of Illinois during that period.

Who Is Doing Economics?

- International students coming to US for economics training.
  - Some stay, some return home.
- “The creation of commonly recognized analytical and methodological standards” (Hagemann 2011, 644)
  - Training of graduate students in those theories and methods
  - GI Bill and post-WWII explosion in higher education
  - Many émigré economists helped to spread American methods in Europe and elsewhere through international activities.
- Evolution in undergraduate training for PhD-prep.

Growing Demand for Economic Expertise

- In part reflecting evolution of what economics is and what economists do
- In part reflecting a new attitude: Government had some responsibility for seeing to the wellbeing of the citizenry.
  - Artifact of Great Depression, two world wars
  - Government's share in GDP grew significantly
  - Creates demand for economists as policy advisors
    - Government, development agencies, …

Growing Demand for Economic Expertise

- Worker-bees within the bureaucracy
  - Government agencies at all levels, legislative bodies, …
- Including demand for services in traditionally ‘non-economic’ realms inside and outside of government
  - Wall Street
  - Courtrooms
  - Google, Amazon, ...

Integrating the foregoing

- The generation of economists working in the 1930s – 1950s:
  - Developing tool-based economic modeling methods
    - Coalescence around a particular set of tools and methods.
      - Those not using the tools increasingly marginalized (e.g., institutionalism).
    - Succession of (often slow) additions to the toolkit.
  - Wanted to apply the tools to engineer economic improvement
    - An artifact of Depression and wartime work.

Integrating the foregoing

- Development of tools was often in response to specific problems (not arm-chair theorizing)
  - Internalist vs. externalist explanations.
  - Scientific invention + practical interventions/applications.
  - Engineering mode.
  - A story of persons + circumstances.

Integrating

- “Planning” very much becomes the mid-century language
  - Fueled by the successes of WWII planning.
  - Seen as applicable on a much wider scale.
    - Development planning all over the world
      - International agencies
      - Countries importing economists (or sending out + bringing back)
    - “Planning for democracy”, not just “planning for socialism”
    - Regulatory structure, nationalization, …

Integration

- The evolution of scope:
  - Adapt tools to contexts; change existing circumstances into preferred outcomes.
  - Mid-century: Grand projects—post-WWII order, development projects, remaking economies (economic missions, nationalization of industries, …)
  - Last third of century: “economists as plumbers” (Duflo)—small-scale problem-solving to try to correct problems with (promote efficiency in) bits of the system.
    - Problem-focused: “How do we ‘fix’ *X*?”
  - Expanding boundaries
    - New arenas for application of the tools—Responses to social issues, etc.

Integration

- Not simply a matter of economists grabbing tools off the mathematician's or statisticians's shelf to try to be 'more scientific.'
- Problem-driven; adopting and adapting tools to fit problems.
  - E.g., econometric tools developed to fit the economic data and economic theory.
  - Models adapted to deal with newly identified 'economic problems'
    - E.g., externality analysis and environmental issues; inequality/taxation …
    - Expanding domain of economics and research topics.
  - Benefit-cost tools developed to meet policy challenges.

Performativity

- Economists' engineering efforts as attempts to make the world more like the world of the economist's theories and models.
  - Theories about outcomes used to create realities that reflect theories.
    - Public-sector pricing models.
    - Benefit-cost tests (to get around, e.g., public choice problems).
    - Market design, auctions, …
  - Quantification.
  - Data as essential ingredient.

The Big ‘Why?’

- What accounts for why economists do what they do?
  - Dedication to ‘scientific truth’? (Traditional ‘hist of econ thought’ view)
    - Theoretical change as ‘scientific revolution’ (Kuhn 1962)
  - Ideology?
  - Funding?
  - Professional ambition?

→ Much of the recent history of econ literature in ‘history’

> Not for us is the limelight and the applause. But that doesn’t mean the game is not worth the candle or that we do not in the end win the game. In the long run, the economic scholar works for the only coin worth having—our own applause.[11] (Samuelson, *AER*, 1962, 18)