



GOAT: Who is the
Greatest Economist
of all Time and Why
Does it Matter?

By Tyler Cowen

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Chapters

- I. [Introduction, and why this is the book of a fan](#)
- II. [Milton Friedman as GOAT?](#)
- III. [John Maynard Keynes](#)
- IV. [Friedrich A. Hayek](#)
- V. [Those who did not make the short list: Marshall, Samuelson, Arrow, Becker, and Schumpeter](#)
- VI. [Why won't anyone nominate John Stuart Mill as GOAT?](#)
- VII. [Malthus as GOAT, and are we all doomed?](#)
- VIII. [Is Adam Smith the obvious winner?](#)
- IX. [The winner\(s\): so who is the greatest economist of all time?](#)

Introduction, and why this is the book of a fan

From early in my life I have loved the history of economic thought.

When I went abroad for the first time, I was seventeen years old. I attended a summer class at Oxford – pretty standard fare – but after that class I had an extra week to spend in London. I loved the Clash, Monty Python’s Flying Circus, and the Beatles. But what did I do? I went to the British Library, where I knew that Karl Marx had read the history of economic thought. Then I used the book order system to call for a copy—indeed a first edition—of Samuel Bailey’s [Critical Dissertation on the Nature, Measure, and Causes of Value](#), first published in 1825. If you don’t already know, Bailey’s work was an early and prescient attempt to argue for theories of subjective economic value, and to move away from David Ricardo’s labor theory of value. In other words, it was one of the earlier attempts to bring economic reasoning into the modern age.

I sat there and read the book.

Every day, I departed from my inexpensive hostel and walked for over an hour to reach the British Library, and later in the day I returned in the evening. Bailey was just the beginning, as next to follow was Thomas Hodgskin, an early hybrid blend of libertarian and working-class

socialist ideas, again from the early nineteenth century, my favorite period at the time. Hodgskin favored free trade, but felt that employers were taking too much surplus from the workers. He later wrote for the early incarnation of the magazine *The Economist*.

The next year, as a beginning undergraduate, I started collecting books in the history of economic thought. With my good friend and roommate Daniel B. Klein (whose history of thought research I use for the Adam Smith chapter), I drove around to various cities on the east coast and mid-Atlantic region to “hit” the used book shops, as we described it. Most of all we were looking for classics in the history of economic thought. We would drive into Baltimore, Wilmington, or Philadelphia, stop at a phone booth, rip out the phone book pages for used book stores (sorry!), and then drive around searching for those places. The greatest joy was to find an inexpensively priced Augustus Kelley edition (“a Kelley”), as that publisher put out many of the best early works in the history of economic thought. Yet public demand for those works was not exactly strong, so sometimes they were quite cheap on the used book store shelves (though the Strand in Manhattan, then and now a leading used book store, knew to price them appropriately).

One day at an economics conference I met the publisher at Kelley, which turned out to be a one-man firm with a bunch of penny ante contractors. In reality the guy seemed unimpressive, nonetheless it felt like encountering a real celebrity, someone who was unbelievably out there in the real world to see and shake hands with. He confided in me his secrets for how to sell those books for exorbitant prices to Japanese libraries, which turned out to be the key to his business model. The firm eventually moved from New York City to Fairfield, New Jersey, and no longer seems to be active.

At the time I was living in the Washington, D.C. area, and I learned that the renowned Austrian economist, and later international trade theorist Gottfried Haberler was alive and furthermore he

was living in the District of Columbia. At age eighteen, that was of course a spur to action. Haberler was to me a living legend. He was a tie to both the Austrian School of Mises and Hayek, and an active participant in the pre-war seminars and discussions of that Viennese group. He also was a major player in the international trade debates of the 1930s. Paul Samuelson had written that Haberler had deserved a Nobel Prize, and that he stood as part of the great triumvirate with Bertil Ohlin and Jacob Viner in the annals of international trade theory.¹

At the same time, many of the more purist Austrians considered Haberler to be a traitor to the cause, or at least a lamb led badly astray. He abandoned the Austrian economics of Mises for a more eclectic neoclassical style of reasoning, replete with models and static maximization. This didn't bother me much, but still I was curious to see what such a traitor might look like and how he might hold his head.

So I pulled out the phone book, looked up his name, and found his address, comfortably ensconced in a green, leafy Northwest neighborhood north of Georgetown. From the car (with partner in crime Daniel Klein once again) you could peer into the window of his home, and there indeed was a man who resembled Gottfried Haberler. He was sitting at a table, with his head and neck perched low, and he was feeding himself (slowly) with a spoon. Haberler lasted until the ripe old age of 95, passing away in 1995.

We let out a whoop and drove away, fearing someone might have seen us. Did you know that his 1937 tome Prosperity and Depression was perhaps the best summary of trade cycle theories available at the time? For whatever reasons, the international trade contributions struck me as too messy and I was more excited by his work on business cycles.

¹ See Samuelson (1981, p.358).

Perhaps my favorite book at the time was a University of Chicago Press calendar, full of photos of famous economists. I paged through that book so many times to look at the famous economists, but of course I had my favorite stopping points. Frank Hyneman Knight appeared dignified, but also curious and open to inquiry. Keynes seemed effete and British and brainy, and the young Paul Samuelson looked remarkably like a publicity photo for Buddy Holly, most of all the cocked angle of his head. I would giggle every time I happened upon the photo of Irish economist Francis Ysidro Edgeworth, because his basic look and expression reminded me of a Schnauzer Terrier.

However unusual you may find that all to be, that story represented, and still represents, my passion for economics, most of all the history of economics and history of economic thinking. But this passion has long been a highly subjective one, as much wrapped up in personalities and celebrities as in arguments. I feel no shame at that reality, and I suspect the professional gossip that we all engage in shows a similar orientation. I'm simply more open about it than most people, and in this book I am more open about it yet.

While I would not normally be considered a specialist in the history of economic thought, for almost twenty years now I have written, on a daily basis, what has become the most widely read economics blog in existence, namely Marginal Revolution. Marginal Revolution serves many functions, but among other things it is a chronicle of the economics profession. Alex Tabarrok (my co-blogger) and I cover who wins the Nobel Prize, who switches to one school to another, who starts and quits a blog, how the job market works, what is new and exciting in the National Bureau of Economic Research paper series, who wins the J.B. Clark Medal for best economist under 40, and more. You could say I have become a chronicler of the very recent history of economic thought. I've also run a podcast for almost ten years, and a lot of my guests have been very famous economists. That includes Jeffrey Sachs, Paul Krugman, Paul Romer, Larry

Summers, Abhijit Banerjee, Esther Duflo, Michael Kremer, Jason Furman, Dani Rodrik, Nicholas Bloom, Melissa Dell, Nathan Nunn, Brad DeLong, Claudia Goldin, and many more. Over the course of these interviews, I have continued to promote the view that the economics cannot be separated from the individual human beings producing it.

Concerning the longer-term history of economic thought, my questions are these: what is truly important in the lives and works of the very best economists, how can we understand their languages, and how should we think of them as extreme talents, albeit sometimes highly flawed talents? In addition to those general queries, I will examine what the major GOAT contenders thought and wrote about the economic development of India, a common topic amongst the group except for Hayek, and also a modest attempt to inject a little diversity into the account. Surely it makes sense to ask how each person thought and wrote when confronted with an essentially strange and unfamiliar environment?

To qualify as “GOAT the greatest economist of all time,” I expect the following from a candidate. The economist must be original, of great historical import, serve as a creator and carrier of important ideas, have a hand in both theory and empirics, have a hand in both macro and micro, and be “not too wrong” on the substance of issues. Furthermore, the person also must be a pretty good economist! That is, if you sat down with the person and discussed economic issues, you would be in some way impressed.

It could be debated how much weight should be assigned to each category, but that is better considered through concrete comparisons than in the abstract. My inclination is to take each category as a kind of absolute requirement. That is, if a particular candidate fails in that area, he is not going to be GOAT. You might wonder “but what about his strength in all the other areas?” Well, the areas of achievement listed above are so fundamental that if a person falls short in one

of them in a major and obvious way, he is likely to be falling short in other areas of economic importance as well, even if those other failings are less obvious. Rest assured, that individuals still can be in the top ten economists of all time, if you so desire, so I am hardly pressing the eject button on them.

I seek to use the GOAT framing to make some progress on what I regard as my primary purposes with this book.

First, I wish to teach the reader some economics. But most didactic manuals in economics are boring, even for dedicated specialists. What people respond to, probably for deeply embedded biological reasons, is *talk about other people*. So rather than reading “here is what the permanent income hypothesis implies, blah, blah, blah” which might bore you, instead I will serve up “here is why the permanent income hypothesis means Milton Friedman is *great*.” Maybe that will piss you off, because perhaps you are not a huge fan of Milton Friedman for political reasons. Or maybe you don’t feel ideas should be personalized in that manner. Still, you might digest more of the content, if only to push back against it, to curse me out, or to decide why you like Friedman even less (or more?) than you had thought.

Second, I wish to present *economics as a vehicle for carrying ideas about the world*. There are many different conceptions of what economics is supposed to do, and I will discuss some of those throughout this book. For some economics is about prediction, for others it is about understanding our world better, for others it is macroeconomic forecasting, or hypothesis testing, or perhaps making more money by mastering finance and market trading. Or maybe it can help you become a better manager of a business, or a better steward of your personal life (“treat sunk costs as sunk! Walk out of that boring movie!”). I am on board with all of those visions, but the “carrying ideas” function of economics often is overlooked, especially in contemporary times,

where it has become unfashionable due to the ascendancy of a very particular kind of narrow hypothesis testing in the discipline.

As a vehicle for carrying ideas, economics became a kind of communication medium. In the 1960s and 1970s, for instance, music radio was a major vehicle for carrying ideas. If you turned to the right station, and listened for a few days, you would get a good sense of what people were talking about and perhaps worried about. Circa 2023, Twitter (now X) has been a major communication medium. If you had a new idea, or perhaps wished to rehash an old one, you might put it on social media, including discussion forums such as Reddit. Substack, YouTube, and blogs play this role as well. But in the 19th century, if you had a new idea you might have embedded it in an economics theory about the world. Malthus's population worries and Mill's feminism, for instance, were written up in book form and surrounded by a structure of economic arguments.

I miss economics as a vehicle for carrying forward new ideas. In today's economics I find empirical truths, very competently done measurement, database creation, and 90-page long submissions to the top journals, full of the very best and most thorough robustness checks. That all has its advantages, but still I miss the earlier world and in part I am trying to use this book to revalue it, by learning, relearning, and newly ordering its secrets.

If you doubt the difference in worlds and that yawning gap in perspectives, between the old and the current, open to the pages of Marina Cook's 2020 Yale University book of photographs of economists, Economists: Photographs. Most of them look posed, boring, and homogenized, a far cry from the University of Chicago economists' photo calendar that I loved in my youth.

As for my third purpose, I am very interested in the general topic of talent, as reflected in my last book, co-authored with venture capitalist Daniel Gross, namely Talent. This history is, among other things, a case study in talent. What does the talent of the very best economists consist of? What are their flaws and weaknesses? How should we go about thinking of talent in economics and in science and academia more generally?

Fourth, I am curious as to who is indeed the greatest economist of all time. I figured the best way to figure out my views on that question was to write a book on it. I can't promise I won't ever change my mind, but I believe the choices made here are going to stick. As is so often the case, writing is a way of figuring out what we think.

The history of economic thought has a longer-term connection to my intellectual lineage. I started reading economics at the age of 13, and was reading it intensely by the age of 14. And much of my early reading was of the classical economists themselves, including Adam Smith and also the first six chapters of David Ricardo, as I found the rest of the book too boring and too difficult at the time.

I had a reasonable working knowledge of classical economics by the time I was a young teen. Furthermore, I had not much mastered contemporary neoclassical economics, so the classical economic way of thinking came naturally to me, as did very early forms of neoclassical economics. I had studied Paul Heyne's textbook The Economic Way of Thinking, which explained marginalism with remarkable clarity, as did Philip Wicksteed's The Commonsense of Political Economy (1910), but still The Wealth of Nations seemed just fine. To this day, when I encounter classical economics, it does not to me seem like a strange, backward, or historically anachronistic way of thinking. It just seems like economics, noting that I am (and was then) well aware of its mistakes and limitations.

Much of my knowledge of neoclassical economics and first-order conditions came from a study of Knut Wicksell, the turn of the century Swedish economist I read when I was 17, and also from Alfred Marshall's famed appendix to his Principles of Economics, so neoclassical economics I also approached through the lens of the history of economic thought. To this day I remember reading in Wicksell's biography that, although he was an advocate for "free love" he also was a virgin until the age of 38. In macroeconomics, I read Keynes well before learning the later and again more standard and formal IS-LM or AS-AD models, and at that time "neo Keynesian" economics didn't exist. "Real business cycle" theory, the frontier topic in the Minnesota-based macroeconomics of the 1980s, was familiar to me from its early days before the Industrial Revolution. When the price of oil skyrocketed in 1979, I thought immediately of Malthus and many others in the early 19th century, complaining about the bad harvests in British history.²

So while my perspective on the history of economic thought is skewed, it has its own strange kind of authenticity. It is alive and vivid to me, and I am self-conscious of being someone who carries it forward in a manner which is, these days, quite rare. I am at least as much a product of the history of economic thought as of my own graduate training, almost certainly more so. Like that or not, this book will give you a different perspective.

What else characterizes this book?

I will not try to cover the entire history of economic thought or try to be comprehensive. Who cares, frankly? This is not Joseph Schumpeter's History of Economic Analysis, a wonderful book but one that is no longer read or even much remembered, despite Schumpeter's continuing prominence. Did you know that Schumpeter read nine or so languages, including Russian and

² See Gårdlund (1958,p.125).

Dutch? Do you care? I do, actually, but we are not going that route. I'll focus on highlights and the really famous people, especially the ones whose status you might be inclined to argue about. Again, that will help keep you – and me – involved in the narrative.

I also won't be shy about mentioning my own political views, which perhaps you know are broadly libertarian, albeit with a pragmatic bent. But it is not the goal of this book to convert you to those views, and I'll at times be pretty brutal with some of the actual libertarians, Friedman and Hayek included. I'm not trying to take sides, but I prefer to be upfront about my perspectives. I would rather entertain you, and present what I see as the truth, than be polite to my own side in the political sense of that term.

Do you want to know which single book probably is the biggest influence on this one?

It is the Bill Simmons 2009 book The Book of Basketball: The NBA According to the Sports Guy. I loved that book and tried to pretty much read it straight through, even with its 697 pp. of text. I'm not trying to copy Simmons's errant misogyny, or his love of the Boston Celtics. But he gives you the perspective of *the fan*, not just the analyst. He loves basketball, and that comes through on every page of the book. He rants, he raves, and he obsesses. So when Bill decides to write five pages on "What if the '86 Rockets never fell apart?" (pp.191-195), you read along, even though (because?) he offers digressions on the Detroit Pistons and Los Angeles Lakers as well. Or does it mean *anything* to say that Scottie Pippen is the 24th greatest player of all time, with Isiah Thomas the 23rd greatest? When you're reading Simmons, again you are inclined to go along with the absurdity of this method.

For Simmons, just about everyone and every team gets rated, and indeed about the last four hundred (!) pages of his book consists of ranking the greatest players of all time, and justifying

the grounds for his list. (Michael Jordan wins as #1, if you are wondering.) I won't go that far, but I'm going to focus this book on the question of who was the GOAT economist – the Greatest Of All Time.

You can call it juvenile, or overly hierarchical, I say it will force you to think. The candidates will be Adam Smith, Thomas Robert Malthus, John Stuart Mill, John Maynard Keynes, Friedrich A. Hayek, and Milton Friedman, plus I'll consider a few other titans in briefer, desultory fashion before dismissing them.

I'm going to start with Friedman, precisely because he irritates more people than do some of those other names. I met him twice, and you are going to hear about that too.

* For comments and assistance with this work the author wishes to thank Christina Cacioppo, Agnes Callard, Bryan Caplan, Greg Caskey, Patrick Collison, Andrew Farrant, Jane van Mehren, Hollis Robbins, Alex Tabarrok, Daniel Klein, David Levy, Zach Mazlish, Anna Claire Flowers, Maria Pia Paganelli, Shruti Rajagopalan, Tamara Winter, and numerous others.

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CHAPTER 2

Milton Friedman as GOAT?

Let's start by considering the case *for* Milton as GOAT.

My first standard is how an economist analyzes a more or less new problem shown to him, and thus how well that economist can think. That sounds simple, but as we'll see it rules out many folks right off the bat, most notably Karl Marx.

Let's consider Milton Friedman's 1955 memo written to the government of India, based upon his first trip there. No one ever has suggested that Friedman was an expert on India, or even an expert on developing nations, a topic that barely came up in his published research (he does discuss Hong Kong and the other Asian tigers in some of his more popular writings).³

³ For the details of Friedman's trip, see Friedman and Friedman (1989, chapter eighteen). For a bit more detail, see also Friedman's later shorter 1957 piece (Friedman 1957a).

Friedman starts the memo by noting that a five percent rate of economic growth should be possible for India, reflecting of course his interest in economic progress. That was during a time when Indian growth rates were more in the range of two percent, and the prevailing approach was to refer to “the Hindu rate of growth” in a pessimistic manner. Friedman also suggests that Indian growth will be “catch-up growth,” drawing upon the “technical and scientific knowledge” of the world. Early on in the memo, Friedman also argues for a moderately expansionary monetary policy, much better education and training, and better infrastructure.⁴

So far Friedman is on track.

He presents further specifics when confronting other views. For instance, he argued that the prevailing development literature put too much emphasis on aggregate investment and the capital to output ratio. Friedman worried about the possibility of malinvestment, and that the Indian government would favor “heavy industry...and handicrafts” too much, at the expense of small and medium-size enterprises. Furthermore, he saw that India should focus more on human capital.

Friedman also insists that the Indian government should not excessively expand the public sector. He criticized “nationalization and detailed state control over economic activity,” hardly a surprising view from Milton Friedman. You might see this point as overlooking the possibility of East Asian-style industrial policy, but Indian government interventions, during this period and afterwards, did turn out relatively badly, and furthermore the East Asian successes were hardly apparent or even existing at the time. So Friedman’s analysis may be imperfect in hindsight, but overall it was defensible. Nonetheless Friedman could have raised the importance of an economy

⁴ See the two writings by Friedman on India in 1955, his Memorandum to the Government and also his notes on “Indian Economic Planning,” both published by Shah (2000).

having sectors with increasing returns, learning effects, and higher growth potential, but he did not. Most of all, he was appropriately critical of the efforts of the Indian government to protect inefficient industries, and he attacked licensing requirements and the general stifling of progress through excess regulation and favoritism.

Friedman also called for India to have money supply growth of 4 to 6 percent a year, and he placed special stress on this recommendation. My view is a little different, having observed that South Korea often had high double-digit inflation during its economic miracle, but still this was sound enough advice, even if he overly prioritized the point.

On the tax side, Friedman called for a broader tax base for India with a greater scope for direct income taxation. Excise taxes, in turn, should be cut back. These recommendations also have held up well, and furthermore they belie the view of Friedman as a mindless tax cutter.

In his notes on Indian economic planning, Friedman expressed concern that the distribution of income in India was widening rather than narrowing. He also takes pains to rebut the view that India is culturally or religiously unsuited for economic growth, and he blames poor Indian economic policy for India's poverty, not the Indian people. To the current reader, this sharp distinction between culture and ideas about policy may sound naïve, especially since Friedman complains about both corruption and the fondness of Indian intellectuals for socialist ideology. Do those two factors truly have nothing to do with the culture of a country or region? In any case Friedman saw the very great potential in India.⁵

⁵ See Friedman, "Indian Economic Planning," in Shah (2000), originally written after Friedman's second India trip in 1955.

He also criticized India's system of foreign exchange allocation and called for a freeing up of capital markets and exchange rates. Arguably the verdict on this recommendation is still out, as India still controls capital flows and thus its exchange rate to some extent. Some defenders of this policy will argue it is why India has avoided a major financial crisis, namely that international capital flows in and out of the country have never been so volatile. Again, while I tend to agree with Friedman here (there is evidence that foreign capital significantly boosts Indian productivity), I would acknowledge this as a possible point of criticism. At the very least it is not obvious that Friedman was correct in this segment of his recommendations.⁶

Finally, Friedman closes the memo by noting he has focused so much on monetary and financial affairs because that is his area of expertise. He also notes a few times that he is no expert on the economic affairs of India.

In sum, this memo is not perfect...but it basically hits the mark, has held up well, and Milton Friedman passes the test of giving good policy advice into a broadly unfamiliar situation.

The next question for any GOAT contender is whether the economist was connected with any centrally important historical movement, and whether his ideas played a role in that movement. Friedman here passes with flying colors. His ideas, along with those of the rest of the Chicago School, and also F. A. Hayek, were a central influence on the disillusionment with communism and socialism, the collapse of communism, and subsequent market-oriented reforms. Above and beyond the collapse of communism, market-oriented reforms came to most of the democratic world in the 1980s and 1990s, and it is remarkable how many of the reformers cited Friedman, were influenced by Friedman, or in some cases worked with Friedman directly. Many of the

⁶ On the positive effects of foreign capital in India, see Bau and Matray (2020). For more on Friedman's exchange rate advice to developing nations, see Edwards (2020).

Latin American market-oriented reformers (sometimes disparagingly called “the Chicago Boys”) studied economics at the University of Chicago, sometimes with Friedman himself.

Within the United States, Friedman had a remarkable influence on policy along a number of lines. He led the intellectual opposition against the military draft, promoting economic arguments against the draft based on the idea of opportunity cost, and he chaired a commission that both recommended against the draft and led to its abolition. Since that time, the military draft has not returned to the United States, and it is not even a serious object of discussion, indicating that Friedman made the right call on that one.⁷

Friedman also led the charge for floating exchange rates, and told the world that floating rates would work just fine. He underestimated the exchange rate volatility that would result, but in fact the world’s advanced economies did move largely to a system of floating exchange rates in the 1970s, and it has proved enduring. The creation of the single-currency euro is one attempt to move back to a fixed rates logic (Friedman, consistently, opposed it), but still floating exchange rates appear to be here to stay. We’ve even seen China, now one of the world’s two largest economies, move from a sliding peg system to what has been fairly close to a market-determined float, and without incidence or major problem.

Score another one for Friedman, and as with Keynes Friedman’s exchange rate ideas and writings sprang from working on some very concrete problems, in the case of Friedman starting with his work on German exchange rate policy.⁸

⁷ On Friedman’s opposition to the military draft, and his involvement in that as a policy issue, see Singleton (2016).

⁸ See Friedman and Friedman (1998, p.182). Also relevant was Friedman’s work advising Brazil on monetary policy, on that work see Boianovsky (2020).

Friedman's "monetarism," while it was never adopted wholesale in its original stated form, led the Federal Reserve System to refocus its attention on money supply figures and also price inflation during the late 1970s and 1980s. When it comes to central banks, including in America but not only, Friedman is arguably the most influential economist since John Maynard Keynes. Friedman never did see his "money supply growth rule" translated into practice, but still his broader Fisherian notion of "aggregate demand coming from the monetary side" is central to contemporary thinking. More recent proposals for nominal GDP targeting (in essence monetary targeting, but adjusted for the velocity of money) take their inspiration directly from Friedman, as Scott Sumner among others has stressed.⁹

With only mixed results, Friedman also helped found the movement for "school choice" in the United States. Vouchers are used in some number of municipalities as Friedman had recommended, and there is now a broader state-level movement, typically in the red states, to implement them more widely. It is noteworthy that the major non-profit pushing for K-12 school vouchers, EdChoice, previously was called Friedman Foundation for Educational Choice. To date, charter schools have built a broader constituency than have vouchers, and there too a Friedmanite influence can be discerned, even though Friedman himself was more interested in pushing the voucher idea.

Friedman also had a lesser-known but still important influence in the field of finance. Financial futures, including on exchange rates and stock indices, were pioneered by the Chicago Mercantile Exchange in the early 1980s. Friedman was a major advisor to Leo Melamed, then head of the Merc (as it is called), and he wrote a study for the Merc suggesting that financial

⁹ Interestingly, Friedman in his very early years was not a monetarist at all but instead focused on fiscal policy, as a Keynesian might. See Nelson (2020, vol.I, pp.95-103), and also Nelson p.171 considers many of the different times Friedman changed his mind, and admitted to such, in his career.

futures would work just fine. That study helped financial futures receive approval from the American regulators. To this day, those financial futures are a staple of market trading, information revelation, and they also provide guidance to policymakers as to where economic conditions are heading. So the influence of Friedman has stretched into the concrete business practices of the private sector.

Overall, when it comes to real-world policy influence, Friedman does very very well in that category. Friedman receives a lot of criticism for being “too free market,” or for being “too neoliberal,” whatever that is supposed to mean. This isn’t the time or the place to debate all of those normative questions, but most of the actual practical changes that have come from the work of Milton Friedman have become broadly accepted rather than ideologically controversial. For better or worse, we do not live in the world outlined in Friedman’s popular economics tract and television show Free to Choose, or his earlier 1962 book *Capitalism and Freedom*, which called for a move toward much smaller government.

If you are looking to take Friedman down a peg for being too close to laissez-faire, the easiest target is his 1972 *Newsweek* column, when he called for eventually moving away from government welfare programs altogether, at least once a host of harmful government regulations are repealed, and replacing them with private charity. That call has not aged well, in part because economic growth has not been evenly distributed across income classes, and in part because the capabilities of private charity no longer seem so positive. Still, if you look at Friedman’s actual influence on the redistribution debate, it has been to popularize and legitimize the idea of a negative income tax as an alternative to current programs. Friedman for decades, dating back to

1939, insisted that simple cash transfers would be superior to the current system, and whether or not you agree, that idea is still part of the public debate and Friedman is still cited for it.¹⁰

As for the channels of Friedman's influence, it is striking how many disparate mediums he mastered. He wrote academic articles and books, policy papers, had a regular column for *Newsweek* (with some framing and rewriting done by his wife Rose), and was mesmerizing on television, as a search through YouTube will verify. It is no surprise that he was given his own public television "documentary" – Free to Choose – and that the show was highly popular and influential in its time. As a teenager, I watched every episode.¹¹

Obviously, another standard for GOAT involves significant contributions to economic research. There Friedman's contributions are obviously very strong, but we will see there is a caveat.

One big plus is that Friedman made major contributions to both microeconomics and macroeconomics. His Monetary History of the United States, 1867-1960, co-authored with Anna J. Schwartz, vastly improved our understanding of the Great Depression, and set new standards for careful reasoning in economic history. Again, Friedman has been the most influential macroeconomic thinker since John Maynard Keynes. As Friedman has noted, his interest in monetary economics sprang from his World War II experience in the Treasury Department, when he was asked to compare taxes vs. price controls as ways of keeping down rates of price inflation.¹²

¹⁰ On Friedman's views here, see Ebenstein (2007, pp.227-228). The *Newsweek* column is Friedman (1972, "Is Welfare a Basic Human Right?"). See also Burns (2023, passim, who notes Friedman typically favored assistance to the poor, and p.177 on his guaranteed annual income advocacy dating back to 1939).

¹¹ On the influence of Rose on the *Newsweek* column, see Burns (2023, p.284).

¹² See Taylor (2001, p.118) and also Nelson (2020, vol.I, pp.37-38).

Still, some cracks show in the façade here. The problem, if that is the right way to put it, is that much of Friedman's contribution already can be found in Irving Fisher and the Quantity Theory of Money, the latter dating at least as far back as the 19th century. Friedman, who was always generous to his precursors, was more than willing to admit and indeed emphasize this. Still, a question arises as to how much the resurrection of good common sense counts toward GOAT status. If you think of economics as conveying a relatively set body of fixed truths, as indeed Friedman himself did, this won't disturb you very much. If you are looking for extreme originality, and an overturning of previous doctrine, Friedman falls a bit short here, at least by GOAT standards (to be clear, he still massively beats out almost every other economist on originality grounds).

Another problem is that Friedman's emphasis on money supply measures hasn't held up so well. During the 1980s, for instance, Friedman predicted a return to much higher inflation, based on his look at M2 aggregates. In reality, America ended up moving toward a consistently lower rate of price inflation, in the neighborhood of two percent. After the 2008 financial crash, the relationship between money supply measures and nominal income broke down again, often quite radically, as money supply figures rose and price inflation did not. Money demand simply was not stable, in part due to interest paid on bank reserves held at the Fed. Later in his life Friedman moved away from the notion of strict money supply targeting, and evinced some interest in price inflation rules and also some interest in free banking ideas. Whether or not that was the correct intellectual evolution, it raises the question of what exactly was left standing of Friedman's earlier strong insistence on the relevance of money supply metrics.¹³

¹³ On Friedman's later evolution toward inflation rate targeting, see Sumner (2016, p.259).

One big advantage Friedman had, however, is that he was pioneering the theory of a fiat money economy, and during a time when the last links to a gold standard were being broken. Traditional Keynesian economics can be interpreted as a gold standard theory: deflation risks are high, monetary policy is ineffective, and of course Keynes grew up in the classical gold standard era, and wrote his *General Theory* after Britain went back on gold. In Friedman's world, in contrast, governments can control the supply of money through their central banks, the Fisher effect holds (expected inflation raises nominal interest rates in accord), and without a common commodity unit exchange rates across fiat currencies will end up flexible as well. By the time the 1970s and 1980s roll around, Bretton Woods and the remaining ties to gold are dismantled, and Friedman was the one ready with a full-blown monetary theory of a fiat economy, which fit his times very well.

Friedman's most original contribution to monetary theory was probably his 1969 essay on what is an optimum quantity of money. That piece is convoluted in exposition, but Friedman considers an ideal world with few frictions and asks what an ideal monetary policy might look like. As it stands today, people waste resources converting money into bonds, and bonds into money. They incur what Friedman called "shoe leather costs." Imagine having to drive or walk to the automatic teller machine to get your cash!

In Friedman's artificially constructed world, the goal of monetary policy is to lower nominal interest rates to zero, so that in essence money and bonds become the same asset and we don't have to make so many trips to the bank. A Keynesian might argue that the central bank is deliberately trying to bring about a liquidity trap, but for the primary purpose of lowering shoe leather costs. Again, **this is not an actual practical recommendation**. But it did force economists to understand the money-bonds relationship in a new way, and it led to promising further innovations in monetary theory. It was speculative and playful and removed from

common sense in a way that few of Friedman's pieces were. It was an astonishing display of his analytical brilliance, his ability to think through an idea, and it showed off his versatility. Still, it was a side of Friedman we did not usually see.¹⁴

Friedman's contributions to microeconomics were numerous, and one typical example would be his piece on the Marshallian demand curve, published in the *Journal of Political Economy* in 1949. This piece, a model of analytical clarity, considers what Alfred Marshall meant by his analyses of income-adjusted demand curves and proposes a better and clearer set of categories for microeconomic analysis.¹⁵

Another early and famous piece on microeconomics was Friedman's 1948 piece with statistician Leonard Savage on expected utility theory, "The Utility Analysis of Choices Involving Risk." It had puzzled Friedman that the same individuals would both buy insurance and gamble by playing the lottery. Working with Savage, who was a first-rate mind, Friedman worked out what an expected utility function would have to look like to rationalize this behavior. In particular, the function would be concave and loss-averse at one part of its range, and convex and risk-loving at higher wealth levels. This article now has over four thousand citations on scholar.google.com.

Nonetheless, when viewed in sum these articles, in spite of their fame, weaken Friedman's claim to GOAT. It is not that there is "something wrong" with them, rather they were not pointed in the directions that later proved fruitful. They explored a particular direction of Chicago School microeconomics, when the profession later turned in directions of first pure high theory (say Mark Machina on expected utility theory), and then later behavioral economics, which involved

¹⁴ On Friedman distancing himself from the policy recommendations of this essay, see Nelson (2020, vol.I, pp.332-333).

¹⁵ See Milton Friedman (1949).

a lot of experiment and little theory, starting with Daniel Kahneman and Amos Tversky. To a contemporary behavioral economist, the Friedman-Savage piece, while historically important, looks quaint rather than serving as a current inspiration.

Many of Friedman's research pieces, while well-cited, have ended up "stranded" in the broader research literatures. They do not appear prescient by the standards of 2023.

Again, by the standards of virtually any other economist, Milton Friedman still does very well on this metric – many other pieces have been much more forgotten than his! Still, when applying GOAT standards, I assign a modest negative to Friedman in this category.

Friedman's most significant contribution, in my view, was his theory of permanent income, which is what also put him on the map as a truly great economist. In essence, Friedman made a prediction that the Keynesians did not, Friedman was proven correct, and Friedman's prediction came directly from some very Friedmanite foundations.¹⁶

To rewind just a bit, before Friedman's work many Keynesian economists emphasized current income as a determinant of spending and aggregate demand. You would spend from the income you received, and saving was left over as a residual. If current income was weak, spending would be weak as well. In this Keynesian view, there was a widespread expectation of a depression or recession after World War II, due to a deficiency of demand, in part arising from a demobilization of all the soldiers returning home without jobs and in part arising from the new, lower levels of government spending.

¹⁶ Friedman himself regarded his book *Theory of the Consumption Function* as his greatest work, which is consistent with this view. See Nelson (2020, vol.I, p.198).

Friedman saw a far more optimistic scenario. America had this wonderful unused productive capacity for after the war, soldiers would be reemployed fairly quickly, and there was a considerable stock of savings from “forced saving” during wartime. In fact the “permanent incomes” of Americans were quite high, and that meant consumption would be robust coming out of the war.

Friedman was right. But this was not a mere lucky guess. It already was a common theme of Chicago economics to look at stocks of wealth rather than income flows, and furthermore to consider people’s expectations about the more distant future. Friedman’s triumph over the Keynesians was rooted in some fundamental features of his more basic approach to economics. The permanent income hypothesis also was both microeconomics and macroeconomics at the same time, fully in line with Friedman’s core worldview.¹⁷

I’ve given you the intuitive version, but Friedman laid this out in terms of a model and also in terms of what kinds of regression coefficients you might expect when doing the statistics. It was an achievement of remarkable beauty and clarity. Note also that the key ideas behind the permanent income hypothesis came from the earlier work of American economist Irving Fisher on spending and saving.

Unlike some of the papers mentioned above, Friedman’s permanent income hypothesis never became a “stranded” research contribution. Instead, it turned out to be a foundation stone for a long line of research that very directly still follows in Friedman’s footsteps today. “Predicting consumption,” using expectations, wealth, and other variables is not going to vanish anytime soon as a central topic of macroeconomics. By no means do all other researchers agree with

¹⁷ Burns (2023, pp.220-227) also stresses how Friedman drew from the work of Dorothy Brady and Margaret Reid.

Friedman's longer-run perspective on consumption (behavioral economics has brought a comeback for a particular kind of Keynesian thinking), but the influence of his work from the 1940s continues very strongly into the current day and indeed the topic and Friedman's ideas arguably have never been more relevant.

I see Friedman as having two other truly great research contributions.¹⁸

The first was his analysis of inflation and unemployment, as laid out most famously in his 1968 presidential address to the American Economic Association. Once again, Friedman took the Keynesians to be his whipping boy and he beat them. Keynesian theory of the time predicted you would either have inflation (excess aggregate demand) or unemployment (insufficient aggregate demand). But Friedman showed that boosting inflation was no clear path to higher employment, as over time workers would adjust their expectations and they would not be tricked by the monetary expansion. Friedman in essence predicted that stagflation – both inflation and high unemployment together – would be possible, and lo and behold that is exactly what the later 1970s delivered. As Friedman had predicted, the monetary goosing and stimulus of the 1970s had failed to solve America's unemployment problem.

¹⁸ McCallum (2016) attempts to catalog Friedman's top fifteen research contributions and comes up with "The Methodology of Positive Economics," the analysis of flexible exchange rates, his 1953 book *Essays in Positive Economics*, the work with Savage on risk, his presentation of the quantity theory of money, his work on the consumption function culminating in the 1957 book, his 1960 *A Program for Monetary Stability*, the 1962 book *Capitalism and Freedom*, *The Monetary History* with Anna J. Schwartz, his 1968 *AER* piece "The Role of Monetary Policy," his essay on the optimum quantity of money, his 1963 work with David Meiselman on monetary velocity, his late work (1990) on the economic history of bimetallism, his 1962 *Price Theory* book, and his 1982 book with Schwartz on monetary statistics.

It's not just that Friedman was proven right. This presidential address raced from first principles to more complex conclusions, in a manner that perhaps no other economist could have pulled off. If you are looking for a paradigm example of how the simple and the complex can be blended in scientific reasoning, with brilliant rhetoric as well, this is one of the very best places to go. It is no wonder that it captivated the attention of a generation of economists.

Friedman's other great research contribution is his Monetary History of the United States, co-authored with Anna J. Schwartz. (They also co-authored Monetary Statistics of the United States and Monetary Trends in the United States and the United Kingdom). This book revolutionized macroeconomics, economic history, and our understanding of the Great Depression, all at once. It changed macro by showing that there was plenty of evidence for monetarism throughout many decades of American economic history, thus giving Friedman's other writings a historical gravitas and backing that his rivals found difficult to match. Friedman also countered the idea that the Great Depression provided unalloyed support for Keynesian approaches. He laid the key blame on the Federal Reserve System, for allowing the money supply to fall precipitously after the stock market crash of 1929, taking little action until 1932. Keynes, by the way, at the time agreed with what was later to become Friedman's point.¹⁹

The book revolutionized economic history by presenting so much carefully researched data, and in this regard it is a forerunner of the later "cliometrics" movement, which brought systematic econometrics and statistics to economic history. One of the sides of Friedman that has become less obvious over time is his roots in the Columbia, Wesley Clair Mitchell-inspired, data-gathering, National Bureau of Economic Research branch of economics. That branch is now so dominant that it appears everywhere, but Friedman in his day was a much, much stronger economist because he leapt on that empirical bandwagon so early. Friedman was neither a

¹⁹ On Keynes, see Skidelsky (1992, p.435).

practitioner nor a fan of high-powered econometrics, and he was relatively skeptical about the possibilities for accurate identification, but when it came to statistics and empirical evidence and bivariate relationships, he held their relevance in the highest regard.²⁰

Robert E. Lucas once wrote “Sherwin Rosen once told me that he thought Milton Friedman’s greatest contribution was to think more deeply about the relation of economic theory to evidence than anyone before him had.” That is an interesting and not too commonly heard take on Friedman’s significance.²¹

Monetary History was co-authored with Schwarz, and Friedman was smart enough to pick Schwarz as a co-author, especially as collaborations with women in economics were extremely uncommon at the time. At the time their collaboration started, Schwarz did not have much in the way of formal credentials, including no Ph.D. So Friedman receives credit plus for this one, no matter what his exact role may have been in the collaboration.

You may recall from above that Friedman had a fruitful collaboration with statistician Leonard Savage as well, and furthermore he co-authored with Simon Kuznets a long book on earnings and human capital. If you look at the other names in the running for GOAT, they have no comparable record as collaborators, and that can be considered another mark in Friedman’s favor. Friedman also referred to himself as a “feminist,” and once pointed out he had an especially strong record of working with women, a point confirmed by his collaborations with Rose Friedman and Anna Schwarz, in addition to his willingness to learn from Dorothy Brady and Margaret Reid on his consumption function ideas.²²

²⁰ See for instance Nelson (2020, vol.I, pp.372-373, and 394-395).

²¹ See Lucas (2016). On the empirical methods favored by Friedman (and also Schwartz) see the very useful essay by Ericsson, Hendry, and Hood (2016).

²² On the latter see Burns (2023, pp.220-227).

His nuggets from the workbench

Another relevant standard for GOAT is whether the economist's "offhand" and casual productions were brilliant and insightful. A truly generative thinker ought to have produced interesting material even when writing book reviews, short comments, critiques of ideas that no longer have currency, or for that matter tossing off remarks over coffee or lunch.

On this standard, Milton Friedman ranks highly. He is renowned for his central role at the University of Chicago economics lunch, a tough and competitive environment where Nobel Laureates Gary Becker and George Stigler traded arguments and barbs with few inhibitions. Friedman was seen as the intellectual leader of that group, and he was famous for his quick analysis and sharp retorts.

Friedman's shorter or lesser-known pieces still repay reading, and in fact they are often more interesting than his more famous works, if only because the latter have so much been digested into mainstream thought that they no longer seem novel.

One of my favorite "unknown" Milton Friedman pieces is his sharp criticism of the idea of a "commodity reserve currency," published in 1951. This piece no longer attracts much attention, just as the notion of a commodity reserve currency has been defunct for decades. So I won't work through the arguments, but nonetheless this is one of the best pieces to study Friedman's analytic mental engine. The rapier sword is pulled out and he simply never stops, with a remarkable density of analysis and then critique in virtually every paragraph. In the history of economics up until that time, there simply are not many if any comparable examples of such an

exercise. Among its other virtues, this piece can be read without our political biases about Friedman – whatever they may be – getting in the way.

Consistent with this article and many others, those who knew Milton Friedman unfailingly testify to his presence as the sharpest economic mind in the room, even well after the years of his research peak. If you had an idea that wasn't good enough, Milton could cut it down in seconds, albeit in his standard smiling, polite manner. Even Robert E. Lucas, a Nobel Laureate himself and super-sharp theorist, was impressed by Milton in this regard, as once was related to me by economist David Lilien.

Reading Friedman's "lesser pieces" illustrates just how much of "the Milton Friedman we know" was in place in the immediate postwar period. In 1947, Friedman for the *Journal of Political Economy* published a review of Abba Lerner's socialist ideas in the book *The Economics of Control*. It is still one of the better pieces to read to have a sense of how Friedman thought. There is a gentleness and thoroughness to the exposition, combined with some devastating analytics, gently deployed. First and foremost, Friedman's objections were pragmatic – he did not see how socialist managers could be induced to actually follow the instructions to behave as if they were operating in a competitive economy. Friedrich A. Hayek, the Austrian economist and later Nobel Laureate, also wrote a critique of market socialism, as it was called, and he emphasized the more epistemological problem of how planners could ever have the requisite knowledge to plan an economy. Friedman's more practical critique was that planners could not easily offer managers the incentives to do the right thing. Whereas Austrian economics focused on knowledge, Friedman and the Chicago School emphasized incentives. Profit allows for "instructions plus enforcement" in a manner that, for Friedman, the socialist system cannot readily mimic.

Why is the knowledge problem of Mises and Hayek not central to Friedman's argument? There is no simple, clear answer, but perhaps it is because of Friedman's scientism, namely his apparent view that relatively clear and straightforward knowledge was obtainable directly through scientific inquiry, namely empirical work. Friedman's later views on methodology thus seem to be rearing their head.

Friedman also tackles the topic of income distribution, noting that Lerner offers no clear means of achieving the equality that his scheme supposedly requires. Friedman also devotes several pages of the review to complaining that Lerner offers no adequate recipe for stabilizing aggregate demand. Is that really a major or highly relevant critique of market socialism circa 1947? For Friedman it did not seem to matter, as he is more concerned to push the relevance of the aggregate demand scheme, his *idée fixe* for much of his career.

The very last paragraph of the review concludes with Friedman's characteristic and unflinching politeness: "The proposals in the [Lerner] book have considerable suggestive value and may stimulate others to useful and important work in developing them." Even though Friedman refutes them and in his last sentence notes that "these gifts [of the author] have been imperfectly realized," and "have not been combined with a realistic appraisal of the administrative problems..."

And with that the Friedmanite tour de force was over in a mere 12 pages: pro-market, skeptical of socialism, not a believer in massive income redistribution, scientific, focused on incentives and aggregate demand management, using microeconomics in service of policy reasoning, and above all polite.

Another neglected yet important Friedman work – in fact it is a whole book – is his 1945 National Bureau of Economic Research study with Simon Kuznets, republished in 1954, but the analysis dates from 1941. The work is titled Income from Professional Practice, and on the surface it is a mundane look at “the income structure of five professions,” namely medicine, dentistry, law, certified public accountancy, and consulting engineering. In reality, it is a serious and very high-quality look at the economics of human capital, the return to training and education, the allocation of talent across professions, and barriers to entry resulting from occupational licensing. It anticipates Gary Becker’s later work on human capital, essential to Chicago economics and also winning Becker a Nobel Prize. But Friedman got there first, with Kuznets of course, who himself later won a Nobel Prize for his work on national income accounting and economic statistics. Friedman’s first book was a major contribution, yet it was so overshadowed by his later work that hardly anyone knows about it – an enviable achievement.

Finally, another of Friedman’s important nuggets is his first significant published article, a contribution to statistics published in 1937 (!). It is descriptively titled “The Use of Ranks to Avoid the Assumption of Normality Implicit in the Analysis of Variance,” published in the prestigious Journal of the American Statistical Association. It has over 4500 citations on Google Scholar, many of them fairly current, mostly in the field of non-parametric statistics. It reveals Friedman’s roots in statistics, and also the fundamental practicality of his nature, as he was looking for better statistical estimators for concrete real world problems, most of all predicting consumption, which later became a major theme in his work. However it is not widely known that Friedman was a first-rate statistician before he was a great economist. Friedman also did genuinely useful statistical work for the United States government during the Second World War, for instance with Army officers flying from Europe to Columbia for Friedman to brief them on his statistical work on the performance of proximity fuses. At the time, Friedman thought this

might end up being his most important contribution to science. He also helped the military develop new metal alloys to improve the flying performance of planes.²³

Using the “chips off the workbench” standard, Milton Friedman very much remains in contention for GOAT, greatest economist of all time.

Institution-building

For Milton Friedman, the department of economics at the University of Chicago, and to some extent the law and business schools, count as a major part of his legacy and boost his claim to GOAT.

The basic facts about University of Chicago economics scholarship are indeed overwhelming. Over the span of a few decades, the school produced more Nobel Laureates in economics than any other department ever. Some of those laureates closely associated with Friedman and the Friedman years and doctrines are Ronald Coase, Gary Becker, George Stigler, Robert Fogel, Eugene Fama, Robert Mundell, Harry Markowitz, Myron Scholes, Thomas Sargent, and Robert E. Lucas. Chicago has other economics Laureates as well (e.g., Richard Thaler), for which you might give Friedman some indirect credit, but the former list is a direct offshoot from the Friedman years. And it is fair to say that many on that list are especially important Nobel Laureates. After all, during those years Chicago helped to birth modern law and economics,

²³ On the World War II work, see Hetzel (2007), which is also a good general introduction to Friedman’s career and work in economics. See also Ebenstein (2007, p.45) on the importance of the World War Two work, and for more on Friedman’s work on statistics, and also his wartime work, see Nelson (2020, vol.I, pp.78-82). On new alloys, see Burns (2023, p.135).

human capital theory, expectations in macroeconomics, efficient markets finance, and modern approaches to economic history including cliometrics.²⁴

While Friedman is closely associated with the University of Chicago, keep in mind that he spent 29 years living in California and holding a position at Stanford's Hoover Institution, compared to a bit more than three decades at Chicago. The Chicago years were better for Friedman's academic work than were the Hoover years, even though by the latter time he was having a higher global impact. Nowhere offered better intellectual pushback than the Chicago intellectual and seminar scene, nor does Friedman seem to have worked to build up Hoover. The length of that period is perhaps important for understanding some of the limitations seen in his career, as he did morph into Milton Friedman the public intellectual.²⁵

Errors and omissions and negatives

My impressions of Milton Friedman are colored by the two occasions I spent with him, in addition to a few other times being in the same room as him.

The very first time I met Friedman I also – in the exact same moment and through a set of common introductions – met my first wife, so that was a striking time for me. That was in 1990 at the Mont Pelerin Society meeting in Munich, Germany. As you might expect, Friedman was gracious and charming to everyone, and the conversation was dominated by the fact that “he was Milton Friedman.” His interpersonal skills were immediately on display.

²⁴ Theodore Schultz, another Chicago Nobel laureate in economics, essentially preceded Friedman. It also does not seem that Hayek, who taught at the Committee for Social Thought, had much to do with Friedman's presence at the University of Chicago.

²⁵ On the length of Friedman's time in California, see Ebenstein (2007, p.199).

The second time I spent time with Friedman was at a conference in Dallas, and he was older by then. He was extremely pleasant to everyone, although again it was clear at the table that “he was Milton Friedman,” so to speak. I asked him a series of questions about school vouchers, and the indifferent results that were being obtained by much of the empirical literature on vouchers. His answers, while entirely polite, struck me as a bit glib and dismissive, as if vouchers simply had to make sense, in the same manner that say competitive supermarkets were superior to a centrally planned commissar for food distribution (to be clear, I am a supporter of the school choice idea, but I had genuine, non-hostile questions about the empirical results).

You can attribute Friedman’s response to his age at the time, or simply that he didn’t feel the need to have to answer questions from me – surely he might have been sick of being pestered by questions at every public lunch he attended. Yet neither possibility fit my casual, subjective impression of the incident, rather I felt he just genuinely did not wish to rethink the issue of vouchers. He had settled on the “competitive markets vs. central planning” framing some time ago, and wasn’t going to budge from it.

And indeed overall that interaction fits with my more general reservation about Friedman: he wanted to make economics just a little bit too simple. And this desire for simplicity also is evident in Friedman’s advice to India in the 1955 memo. Although that memo is largely on the mark, and overall to Friedman’s credit, the reader cannot avoid the feeling that Friedman is looking to apply somewhat of a mechanical recipe to India, especially on the money/macro side. He didn’t want to let India be too complicated, perhaps because a genuinely humanitarian side of the man wanted to improve India above all else. As Friedman once said to John Taylor: “What people like is that a person is willing to take positions. He’s not hedging all the time.” I agree

with that as a statement about what people like, but unlike Friedman I do not thereby identify or agree with the perspective of these “people.”²⁶

It is also interesting to look back on a 1945 memo that Wesley Clair Mitchell wrote to Arthur Burns about Friedman, opposing (!) his appointment to the National Bureau of Economic Research. Obviously Mitchell was making one of the great blunders of intellectual history, as Friedman went on to the University of Minnesota and later to much greater fame, but his diagnosis is interesting. Friedman and Kuznets, both later Nobel Laureates of course, had written a 1945 NBER book on the incomes of professionals, and they attributed a significant portion of higher doctor incomes to medical licensing.²⁷ Mitchell, when writing a letter about Friedman, was not altogether pleased by Milton’s work:

“We agree about his acute mind, about his thorough training in mathematical statistics + mathematical economics, about his creative powers at least in the first of these fields and probably in the second, about his personal likeability, + about his honesty of intention. We must admit that he has fooled himself, unwittingly, + thereby fooled all three of us who were so predisposed to accept his findings.”

And also this:

“I think Milton’s troubles arose from accepting a conclusion about the monopolistic practice of the medical societies, feeling sure that restriction of entry must tend to increase the incomes of medical practitioners, + so accepting at face value any statistical

²⁶ See Taylor (2001, p.126).

²⁷ For this story, and the correspondence, see Collier (2017). See also Burns (2023, pp.126-128) for further detail.

evidence that pointed in the direction he knew to be right. We are all of us subject to this type of error. We examine far more critically evidence that appears to run counter to our hypotheses than evidence that supports them. But M. seems to me worse than most of us on this respect.”

Unfair, and in light of the continuing rise in American doctor salaries, also untrue. Nonetheless we are here to examine these economists and their work in every possible light.

These portraits, even if inaccurate, are consistent with Friedman not quite being a theoretical innovator of the very highest order, an issue already mentioned. His monetary theory may well have been largely correct, but much of it consisted of identifying and verifying common sense truths. His most original contribution, on the optimum quantity of money, was false as a policy recommendation and it did not hold his interest. Overall, it is in the permanent income hypothesis that we see the strongest synthesis of Friedman as an innovator and Friedman as a common-sense economist.

To be clear, innovation per se in economics, as opposed to truth, may be overrated. This factor will rise to the forefront for a comparison of Friedman to Keynes for GOAT.

Friedman’s major weakness is also evident in one of the taped segments of his PBS television show Free to Choose. In one episode Peter Jay, former British ambassador to the United States, goes after Friedman, most of all for his philosophical underpinnings. Jay argued that Friedman was very good at knocking down absolutist positions, but didn’t have much of a counter to the idea that some pursuit of greater equality, at the margin, might be valuable. Friedman just didn’t have a good answer for him. Friedman was feeble in response, insisting (correctly) that a lot of observed inequality was due to government, but at the conceptual level he couldn’t come up with

a reason for elevating the priority of liberty absolutely over that of equality. Friedman finally tried to insist “you can only serve one God,” but why should that be true? Cannot a moral theory be pluralist? And exactly when did the positivist Milton Friedman derive that liberty was the true God? Did he not in many other instances find exceptions to the liberty principle, such as believing that some amount of taxation and government was necessary?

Friedman ended up in over his head, he kept on repeating platitudes about freedom, and he was unwilling to consider how he might handle a liberty vs. utility trade-off. I don’t think he “had a bad day,” rather he was never well-equipped to handle this kind of disputation in the first place. He preferred to focus on cases where liberty and utility moved together, and indeed there are many such cases to consider and promote. He never came to terms with true value clashes, and so he felt more comfortable with those cases that, to him at least, seemed to offer the promise of “not too complicated” answers.²⁸

Many of the most common criticisms of Friedman are simply off-base or they are used for purposes of political propaganda or to criticize ideas of “neoliberalism” or laissez-faire. During Friedman’s visit to Pinochet’s Chile, which has become infamous only through misrepresentation, he behaved admirably and insisted that political and economic freedoms were inseparable. He didn’t kowtow to political leaders, no matter what their inclinations, and he made it clear he was not impressed by their power per se. In this regard as well, he always stayed in the role of Milton Friedman.²⁹

²⁸ There is currently a YouTube segment “Milton Friedman Gets Owned” on-line, showing this exchange at https://www.youtube.com/watch?v=FXLWd_avNT8, but more generally the Free to Choose episodes are available on-line.

²⁹ For Friedman’s account of the visit, see Friedman and Friedman (1989, chapter 24 and the appendices). For an outside look at the evidence, see Farrant (2020), who offers much more detail, but no evidence of wrongdoing unless you think simply going to Chile (and talking to Pinochet) is per se objectionable. See also Edwards and Montes (2020) who scrutinize the record

One weakness in Friedman's history as an advisor was his brief stint visiting China and speaking with Chinese government officials. (It is remarkable, by the way, how the critics will try to taint Friedman with the very weak Chile affiliation, but will not bring up China, a country which also has consulted with many other visiting American economists, including for instance the left-wing Joseph Stiglitz.) Friedman was first invited to China in 1979, arriving in 1980. At the time he was best known in China for his academic work, not the controversies surrounding his free market stances. Friedman however was frustrated over the reception of his advocacy of capitalism. When he insisted, contra Marx, that capitalism did not harbor contradictions, he received a visit to his hotel and some lengthy lectures about the Communist Party. Friedman left, proclaiming that his hosts were "unbelievably ignorant about how a market or capitalist system works," and in turn one of the Chinese described Friedman as "extraordinarily stubborn," and who "would not speak politely no matter how high your position." Friedman returned in 1988, to speak at a Cato Institute conference in China, advocating privatization and a version of shock therapy. That too was largely poorly received.³⁰

At the suggestion of his hosts, Friedman wrote and submitted a memo to General Secretary Zhao and his team of economists. Friedman started the memo by insisting that China does not face special circumstances, prices should be immediately decontrolled, money should be tightened, and government fiscal deficits limited. Of course that is not what China did, and the country went along its track as one of the greatest growth miracles of history. There is a further development to Friedman's history with the country, but basically the two sides were dug in and the basics of the disagreement didn't really change.³¹

and conclude Friedman's behavior and pronouncements in Chile were pro-democracy and entirely appropriate.

³⁰ On the first visit, see Gewirtz (2017, pp.84-87, with the quotations on p.86, 87 respectively).

³¹ On the second visit and memo, see Gewirtz (2017, pp.210-211).

Maybe you think Friedman's advice was pretty reasonable at the time, and yes similar strategies did work well for Poland, but still this is one of the better examples of how Friedman just didn't look deeply enough into the problem. He didn't understand how much the Chinese reforms needed to be combined with support for Chinese state capacity, rather than just following pure Chicagoan economic principles.

Another potential weakness of Friedman can be seen in his memoir, co-authored with his wife Rose Friedman, Two Lucky People. Although Milton Friedman (and Rose too) had one of the most interesting lives you could imagine, he and Rose wrote one (or should I say two?) pretty boring memoir. There is plenty of factual presentation in the book, most of all on the career side, and in that regard it cannot help but be interesting. But insight? Throughout 589 pages of text, there is barely any inside look into the central episodes of Milton Friedman's life. You will find no real perspective on how Milton moved from being a committed Orthodox Jew to agnostic at the age of twelve, no real stories about how they courted and married, and no *emotional* account of how Milton blossomed from his planned career as an actuary into a world-class economist. (He does however cite Robert Frost and his desire to make the world a better place.) Yes, yes his mentors Homer Jones and Arthur Burns encouraged him, but how did it *feel*? Were there doubts or hesitations along the way? Haven't you wondered whether growing up and reaching a height of no more than five feet in Rahway, New Jersey, early in the twentieth century, might have run into bullying or perhaps some emotional turmoil? No, instead we read that "My [Milton's] four high school years were pleasant and rewarding but mostly uneventful." Junior high school anyone?³²

³² See p.24 on the high school years. On Milton's career decision, see pp.33-34.

Maybe none of that stuff really mattered. Maybe it all happened pretty smoothly, and they were just lucky, lucky, lucky. I genuinely do not rule that out. Still, to put it bluntly, Milton seemed to be lacking depth of spirit. Alternatively, you might also think that Milton simply belonged to an earlier generation, one that did not believe in spilling one's guts on the floor, and indeed one that never would have written a book called "Two Weird Ass People." Fair enough. Still, the reader comes away with the feeling that such "publicity decisions" overwhelmed Milton himself, and that the public Milton Friedman over time became *the* Milton Friedman, an impression consistent with my personal interactions with the man.

It is also striking what a small role *incentives* play in the narrative of the book, even though they lie at the center of Friedman's economics. Luck obviously matters, temperament seems to matter a great deal in the narrative, as does arguably benevolence, but the true engine of Friedman's economics – incentives – is largely swept under the rug, unless you count Friedman noting that he moved to California in part to enjoy the climate. And does luck play such a large role in Friedman's economics, including of course his critique of income redistribution? Well...that too seems to be a disconnect.

And to raise the rude question – maybe you are wondering whether the book is boring because Rose had such a big hand in it? Unlikely. Often Milton and Rose are writing in separate voices, presented as such, and about their own lives, including before they met each other, or they are offering perspectives on the same event. Rose is consistently more interesting and revealing. You can read for instance about her (unfounded) fears that she would not be able to have children, or her decision to put Milton's career first without hesitation. She also writes of her difficulty in seeing Germans dressed as policemen in 1950, given memories of Nazi times. It's hardly a

tabloid revelation as presented, but the self-portrait of Rose in the book is much richer and more interesting than anything you will get from Milton.³³

Rose also has all of the best lines, such as: “Milton learned that his most effective weapon for killing porcupines was a baseball bat.” In contrast, here is a typical bit of Milton: “Like her mother, Rose has always been a marvelous cook, and I can offer the evidence of nearly sixty years of enjoying her food.” Or how about “We also sampled many of the cultural attractions of Hawaii’s harmonious and prosperous multiracial society.”³⁴

We also do not hear how Friedman helped to build up the economics department at Chicago, what he actually thought of various contemporaries, or whether he felt conflicted by moving so much into the policy world and the popularization of economic reasoning, and thus accepting some degree of necessary simplification. Nor is there talk about the trade-offs between family and private life and having so much fame and success. Instead, the book truly comes off as a tale of “two lucky people.”

The first time I picked up the book I wondered if the title might somehow be ironic, as both Friedman and his wife were remarkably talented people, both of them off the scale in any relevant comparison. But no, they really do portray themselves as two lucky people, shorn of much conflict or ever feeling despair or even much ambivalence. It is believed that Friedman had congenital amusia – the inborn inability to enjoy music – but that too is not allowed to run against the grain of his extreme luck.³⁵

³³ See for instance pp.87, 108, 179.

³⁴ On the porcupines, see p.169. On Rose as a cook, see p.83. On Hawaii see pp.211-212.

³⁵ On amusia, see Stewart (2006).

Since Milton Friedman was only co-author, and since it was written late in life (published in 1989), you might write off *Two Lucky People* as a non-essential text. Still, I can't quite bring myself to do that. All of the other memoirs and remembrances by potential GOAT economists (just try John Stuart Mill) reflected something very real about their thoughts and careers.

I wish to close with a family observation about Milton Friedman. Milton married Rose Director, an excellent economist herself, and she was also the sister of Aaron Director, a first-rate economist and a formative influence on economics at the University of Chicago. Milton's son, David Friedman, received a Ph.D in physics but he turned his attention to economics, and law and economics, and he is well published in those fields and he has many enthusiastic fans amongst internet readers. At David's career peak, he was considered one of the fastest and sharpest microeconomic minds around, even if none of his publications brought him a renown comparable to that of his father. Both Milton's wife and son reflect just how much Milton surrounded himself with the ideas and methods of economics, whether that was done intentionally or not. Milton lived surrounded and absorbed by economics in a manner that few other human beings have achieved.

To close this section, it is worth considering what my biases vis-à-vis Friedman might be. First, on the political side I have a clearly positive bias. For much of my life Friedman has been the market-oriented economist who helped to usher in the much-needed market reforms of the 1980s and 1990s. You can debate whether that is "bias" or perceiving reality correctly, but I am closer to Friedman's stance on those reforms than is the median U.S. academic economist circa 2023.

Second, given my background in Austrian economics, I have a modest negative methodological bias against Friedman. I grew up thinking of him as brilliant, but not quite as deep or as interdisciplinary as Hayek was. I read his famous essay "The Methodology of Positive

Economics” as a philosophically superficial apology for a lot of bad economic models. If you don’t already know, in that piece Friedman argues it is fine or perhaps desirable if models have unrealistic assumptions, as long as they predict the data well. Yet one of Friedman’s great strengths was to make Keynesian macro models much more descriptively *accurate*. And he did that to improve their predictive power, as discussed above with the consumption function. So what was Friedman talking about anyway? Was this piece on method a deliberate oversimplification, designed to rebut the more superficial critics of economics? For a long time, and perhaps still today, I have disliked that essay, and you may know that Hayek once called it “quite as dangerous a book” [as Keynes]. My whole life I’ve heard philosophically superficial people cite that essay to defend the irrelevant or harmful models they were producing and applying to policy.³⁶

It is worth noting that when the issue of a courtesy appointment for Hayek in the University of Chicago economics department came up – an honorific rather than substantive title -- Friedman opposed the idea. Surely that reflected some degree of blindness and dogmatism in Friedman.³⁷

In sum, while my biases are on net positive for evaluating Friedman as an economist, they might actually be on net *negative* for considering him to be GOAT.

Make of that what you will. Either way, Milton Friedman is a genuine contender for GOAT, greatest economist of all time. If he is your pick, there is plenty of positive evidence you can cite for that judgment.

³⁶ On Hayek, see Hayek (1994, p.145).

³⁷ Burns (2023, p.191).

GOAT: Who is the Greatest Economist of all Time and Why Does it Matter?

And now on to one of the first targets for Friedman's macroeconomics and monetary theory,
John Maynard Keynes.

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CHAPTER 3

John Maynard Keynes

I don't view Keynes primarily as an economist, rather I see him as a British aesthete rationalist who did economics in his spare time, and fortunately he had lots of spare time. That he still can be in the running for GOAT is a testament to his skill and brilliance. It was Bertrand Russell, no slouch himself, who said of Keynes: "...the sharpest and clearest that I have ever known. When I argued with him, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool..." Robert Skidelsky, Keynes's major biographer, noted "Keynes was one of those rare persons who could both think and act at the highest level."³⁸

Keynes is the GOAT contender I most would want to hang around with. His circle of friends regarded him as extremely charming, he followed real world issues with a passion, had excellent taste in art and was remarkably sensitive in his aesthetic, was extremely articulate, had deep thoughts about the nature of progress, and he would debate ideas endlessly. He seemed multifaceted in a way that Milton Friedman was not, and open and engaging compared to the stuffiness and "old regime" airs of Hayek. I don't think I would be put off by what seemed to be

³⁸ Skidelsky (1986, p.263). On Russell on Keynes, see his Autobiography, Russell (1998 [1967]).

an arrogance or superciliousness toward lesser minds. If that were the price of hanging out with Keynes, so be it! I do get that Keynes was the sort of guy who called Bertrand Russell “Bertie,” and referred to his good friend David Garnett as “Bunny,” including in print. Such are the sins of earlier times.³⁹

I often like to say that all thinkers are regional thinkers, namely they are indelibly shaped by the circumstances they grew up in (1970s northern New Jersey, in my case). For Keynes of course that region was Cambridge, England, or more broadly southern England to also include London and the influence of the British civil service in particular.

Roy Harrod, Keynes’s friend and first biographer, put it so: “If I achieve my purpose, the life-work of Keynes will be seen, in part, as an expression of this Cambridge civilization, both in its stability and self-confidence and in its progressiveness.” In addition to his interest in the aesthetic, Keynes started his career as more of a philosopher and mathematician than an economist, and Harrod tells us “Early influences remained of great importance throughout Keynes’s life.”⁴⁰

Above all, Keynes was influenced by the brilliant Cambridge philosopher G.E. Moore, a member of the Society of Apostles and Keynes’s senior. Moore was renowned for his brilliance and articulateness, both qualities Keynes respected highly, and he was ten years Keynes’s senior. He exercised a magnetic influence over Keynes’s immediate circle, the Apostles were an originally secret society of Cambridge faculty and students. Its most prominent members included Alfred North Whitehead, Bertrand Russell, G.E. Moore, Henry Sidgwick, and Keynes himself,

³⁹ On Bertie and Bunny, see Keynes “My Early Beliefs,” *passim*.

⁴⁰ Harrod (1951, p.3, on early influences see p.vii). O’Donnell (1989) offers a very useful treatment of the import of philosophy throughout Keynes’s writings and career.

obviously a line-up that goes beyond impressive. The nature of absolute truth and goodness, and the relationship between beauty and intelligence, or science and art, were typical of the questions that obsessed the Apostles and in turn Keynes. The perceived enemies were common sense morality and Christianity, and Keynes once noted: “we used to regard Christians as the enemy.” In their cloistered discussions, they explored themes that were later sprung on the entire world, and they very much believed in progress, aided by pure human reason, as it might be applied in Cambridge.⁴¹

In a series of books, most notably his *Principia Ethica*, Moore laid out a vision of an organically good society, based ultimately on human states of mind, the most significant of those being valuable states of consciousness, most of all “the pleasures of human intercourse and the enjoyment of beautiful objects.” Goodness in these matters was a holistic, irreducible concept, not to be made subordinate to the pursuit of any other ends. Furthermore, right action was aimed at bringing about desirable states of affairs, but that said the best states of affairs were complex wholes; such themes were to resurface in Keynes’s Treatise on Probability. It is wrong to think of Keynes as a devoted Moorean, but much of his work was devoted to, whether directly or not, seeking to confirm Moore, refute Moore, or supplement him to make the entire picture more defensible and workable. You can think of Keynes as “Moorean Cambridge philosophy meets British civil service and gay non-conformism” (I’ll get to that soon), with the civil service work injecting a sense of public duty that arguably was absent in Moore.⁴²

The best discussion of Keynes’s early views comes from Keynes himself, and the frank account he offered in his essay “My Early Beliefs,” penned in the 1930s. Keynes wrote of his group of friends and how they accepted Moore’s “religion,” while rejecting his more bourgeois conception

⁴¹ See Skidelsky (1986, p.158).

⁴² Skidelsky (1986, pp.139-145). On Christians, see Toye (2000, p.157).

of morality. The primary premise of this religion was “Nothing mattered except states of mind, our own and other people’s of course, but chiefly our own. These states of mind were not associated with action or achievement or with consequences. They consisted in timeless, passionate states of contemplation and communion, largely unattached to ‘before’ and ‘after’. Their value depended, in accordance with the principle of organic unity, on the state of affairs as a whole which could not be usefully analysed into parts.”⁴³

Keynes then delved into specifics:

“The appropriate subjects of passionate contemplation and communion were a beloved person, beauty and truth, and one’s prime objects in life were love, the creation and enjoyment of aesthetic experience and the pursuit of knowledge. Of these love came a long way first.”⁴⁴

I don’t think you can understand Keynes as a thinker without recognizing his interest in gay sex and gay love, and indeed his prioritization of it. He pursued male romantic and sexual relationships with a true ardor, and surely he was aware of the fraught nature of that inclination in early twentieth century England. Yet it seemed to Keynes that was the right thing to do, and that in turn meant an indictment of Victorianism, traditionalism, and status quo bias. Keynes was on the side of the rationalists, and he believed reason pointed the way toward a lifestyle with wonderful, brilliant friends, cultivation of his interests in the arts, working to build a better society for Britain, and last but not least plenty of romance and sex. Within the Apostles, there was a notion of the “higher sodomy.”⁴⁵

⁴³ See Keynes, “My Early Beliefs,” p.436.

⁴⁴ “My Early Beliefs,” pp.436-437.

⁴⁵ On the higher sodomy, see Davenport-Hines (2015, p.208, see also p.214).

Keynes's essay on his early beliefs comes close to indirectly confessing this perspective, though he takes care to maintain plausible deniability. He notes that in the early days, under the direct influence of Moore, the view of love was "...on the whole, austere and platonic." Over time, however, the group became suspicious of mere simple pleasure, valuing instead "intensity and passion." Keynes remarked that the group "existed in the world of Plato's *Dialogues*," a possible reference to homosexuality, and at the time they regarded the Christians as the enemy. He becomes a bit more explicit when he notes the group rejected all versions of the doctrine of original sin, and "We had no respect for traditional wisdom or the restraints of custom." The group was "joined to libertinism and comprehensive irreverence." That too, for them, was a form of progress.⁴⁶

Zachary Carter, in his recent biography of Keynes, fills in some of the details. It turns out that Keynes kept an extended spreadsheet of his lovers and sexual encounters 1901-1916, each one rated by a number. That may sound like a prurient detail, but it does in fact tie into the bigger picture. Keynes wanted to create a world safe for what he considered to be rationalist and non-conformist ways of life, and he understood just how tall an order that would be. In the spheres of economics and politics, it required international cooperation, no war, a sound monetary order, and a reasonable approximation of full employment, at least most of the time. The synthesis of those concerns was the unique ideological contribution of Keynes.⁴⁷

To be clear, I view Keynes's bisexuality and his strong interest in gay sex as a significant cause of what made him interesting and which gave him so strong an ability to grasp different and outside perspectives. His was not the life of a traditional Victorian, nor can you imagine him

⁴⁶ See pp.437, 441, 445-446, 447, 450.

⁴⁷ On the spreadsheet, see Carter (2020, p.30).

writing an autobiography titled *Two Lucky People. One Guy on a bunch of Quests* might instead have been apt. He and his later wife Lydia Lopokova, the famed Russian ballerina, seem to have been close, but still I read Keynes as having lived the life of a man on his own path, in a way that only Adam Smith would resemble from the other major GOAT contenders.

After the Cambridge Society of the Apostles, a second main influence on Keynes's life and thought was the Bloomsbury group, named after the part of London where they lived. Keynes had his strongest connections to Bloomsbury during the decade of the teens. Unlike the Cambridge crowd, most of the Bloomsbury members were not academics, and thus they helped to keep Keynes's interests broad and pointed in the direction of the arts and a literary sensibility. Virginia Woolf, Leonard Woolf, E.M. Forster, and Lytton Strachey were writers, and Vanessa Bell, Duncan Grant, and Roger Fry were painters. Along with Keynes, only Gerald Shove and Harry Norton held academic jobs. Most had been the children of exceptional parents, and most were cultural and sexual revolutionaries of some kind. As Robert Skidelsky noted: "If Bloomsbury can be defined by a common attitude of mind – as surely it can – this is it. Members of Bloomsbury were uncommonly interested in the question of what constitutes a good life..." At the same time, that understanding of the good life was rooted firmly in the British class system, focusing on a particular kind of fine feelings, aesthetic sensitivity, and reasoned, high-brow cultural consumption, based on a segregation of life devoted to the people who (supposedly) really matter.⁴⁸

Not surprisingly, the Apostles and the Bloomsbury circle had historical intersections. Of the twenty active Bloomsbury group members in 1913, 10 had been Apostles.⁴⁹

⁴⁸ See Skidelsky (1986, p.245, and pp.245-250 more generally).

⁴⁹ See Skidelsky (1986, p.247).

The specifics of Keynes's belief system

To get to the “what did Keynes really believe?” question as it concerns society and politics, I find especially helpful four essays, all reprinted in his Essays in Persuasion. As you might expect, matters of the moral and the aesthetic were paramount.

The first is Keynes's famous “Economic Possibilities for Our Grandchildren,” from 1930. This is the piece where Keynes asserts that in a century's time we will all be working fifteen hours a week, due to the greater wealth of mankind. We are not told what else people will do with their time, but I imagine a vision where people fill their time as the Bloomsbury group did, namely with writing, reading, painting, love affairs, intrigue, and love of England.

Keynes predicts there also will be “great changes in the code of morals”. We will be able to rid ourselves of “many [sic] of the pseudo-moral principles which have hag-ridden us for two hundred years.” One of those is excess love of money, noting I discussed love and sex above. Throughout the essay, Keynes comes down hard on avarice, greed, and the love of money. That was easy for him to do because by 1930 he was quite well-off. Was that hypocritical of him, or perhaps unfair? I would suggest that Keynes's repeated attacks on greed do reflect a weakness in his thinking, namely that he understood the perspective of the British elite far better than any other world view. He thought progress was represented by a lot more people living a life like his, at least in the sphere of the aesthetic. At the philosophical level, this reflected Keynes's ongoing Cantabridgian attachment to philosopher G.E. Moore and his ideals of love, friendship, beauty and the organically good society. That said, for a lot of British people in the earlier part of the twentieth century, “greed” was what induced them to build up the country to become a better place for the lower and middle earning income groups. And rather than choosing a Keynes-like

path, so many of them opted for a petty bourgeois existence as urban or suburban homeowners, raising their families with very few visits to the art museum.⁵⁰

Two further essays are “The End of Laissez-Faire” and “Am I a Liberal?,” from 1926 and 1925 respectively. Both lay out how much Keynes’s normative standard was about what kind of person, gentleman, and political affiliate you might aspire to be. As in “Economic Possibilities for Our Grandchildren,” it is striking how much Keynes identifies capitalism with the motive of greed, rather than seeing capitalism as a system that would create cushions of wealth and make non-pecuniary desires easier to pursue. His main goal is to open up space for money-making to be removed from the center of human life, and for this broader perspective to have some kind of home in British politics.

In his essay on liberalism, Keynes runs through the major British parties and dissects them. The Conservative Party offers “neither intellectual nor spiritual consolation.” The Labour Party unfortunately is not the party of Keynes’s class, namely the educated bourgeoisie, by his account, somewhat monied and perhaps greedy of course. Keynes also feared that the intellectual elements will never control the Labour Party, and if they did Labour would fall under the spell of left-wing extremists. Keynes then offers some relatively favorable remarks about the Liberal Party, although he no longer sees what their emancipatory issues are and he fears that the Liberals no longer differ much from progressive young Conservatives.⁵¹

What Keynes wants is a party that will be neutral between classes and able to build toward the future. That party also should be pacifist, favoring the growth of government, progressive on

⁵⁰ For the first quotation in the paragraph on morals, see Keynes (1931, p.369) [1930]. See Cowen (2017) for an analysis of why Keynes’s predictions did not come to pass.

⁵¹ On consolations, see “Am I a Liberal?” (Keynes 1931, p.323) [1925].

“Sex Questions” (which include birth control, marriage laws and divorce reform, “the treatment of sexual offences and abnormalities,” and the economic position of women), favoring a managed form of alcohol prohibition with exceptions to allow for “reasonable licence”, and supporting the use of government to stabilize economic activity. Keynes ends the essay saying he wishes to be a liberal but on those terms.⁵²

Keynes later needed to drop the pacifism, due to Nazism, but in those few pages I find the clearest statement of Keynes’s vision and core sympathies in all of his writings. If you want to understand the General Theory, and the rest of Keynes’s corpus, think of them as Keynes trying to fill in the blanks so that this broader vision can be realized, and to create the politics and economic policy machinery to keep it on track. That is what Keynes was all about, and that is why I am so emphasizing his broader social and political thought. The economics was a kind of detail.

The final instructive piece in Essays in Persuasion is his “A Short View of Russia” polemic from 1925. Bolshevism was one of Keynes’s favorite targets, and he hated it. He calls Leninism a new religion, and one that “seems to take the colour and gaiety and freedom out of everyday life and to offer a drab substitute in the square wooden faces of its devotees.” I won’t walk you through all his rhetoric, but he maintains the tough tone and later escalates to the word “detestable.” You will note that Keynes, unlike Hayek or Friedman, starts with an *aesthetic* and highly personal

⁵² On “reasonable license,” see Keynes 1931, p.333 [1925]. Note that while Keynes endorses some form of alcohol prohibition in this passage, I take him to be putting his thumb on the scale toward relaxing the notion, relative to what many of his peers were advocating. He stresses the difficulty of asking people to abstain altogether, and in this regard on the prohibition issue he still was being relatively liberal, though not in absolutist terms.

critique of communism. He lists the first question to ask about Bolshevism: “Is the new religion partly true, or sympathetic to the souls of modern men?”⁵³

Keynes however does see a potential positive side to the whole communist experiment. After emphatically stating that it offers no economic contributions or techniques of any value whatsoever, Keynes sees some potential in communism as a religion, most of all because it might shift individuals away from avarice and the worship of money, again a bete noire for Keynes. Again, it is all about the ethics and the aesthetics.⁵⁴

Could Keynes analyze an economic issue put before him?

As for the substance of the economics, we started with Milton Friedman on India, so why not do the same for Keynes, and indeed for as many of the other GOAT contenders as possible? Keynes’s first book in fact was Indian Currency and Finance, from 1913, and it sprung out of his governmental service in the India Office.

The book is excellent and to this day its arguments hold up well. Most of all, Keynes argued for a gold exchange standard with a token silver coin circulation, rather than forcing India to move toward a full gold standard. A gold exchange standard, in this context, meant that India had to honor gold convertibility in its external relations, but without making the rupee directly convertible into gold at home. The costs of holding gold would be reduced, but gold still would remain an anchor for the system as a whole, and India could be an active financial member of the British Commonwealth at relatively low cost.

⁵³ See Keynes (1931, p.298) [1925].

⁵⁴ Note that Keynes in this essay criticizes the Jews for their avariciousness, a serious slander for him. I will return to this point.

The historically informed reader, of course, already will see that this work laid the foundations for Keynes's much later work at Bretton Woods designing the fundamental postwar currency and financial institutions, and it is remarkable for that reason alone.

The most impressive feature of Indian Currency and Finance is just how much Keynes knew about Indian monetary and financial institutions, including money markets, and sometimes state-specific information, for instance quoting the Punjab Chamber of Commerce. If you compare Keynes's institutional knowledge to his time, for the most part he is well ahead of the curve, even though he is dealing with a very foreign country and he is turning only thirty years old in the publication year of the book.

One drawback of the book is how much Keynes's mentality seems to have been captured by that of the British Empire. Keynes was never fuming over British rule over India, and he earlier, at the age of 23, chose to work in the India Office. Keynes was ambitious and wanted to be a player. Furthermore, Keynes supported British rule over India, describing it as having brought "settled, humane, and intelligent government." The sad downside of British rule, for Keynes, was that it induced the population of India to increase, thereby boosting Malthusian pressures. Keynes's perspective was always that of a person who expected India to be ruled from Whitehall and he did not question the presuppositions of empire. Furthermore Keynes, for all of his cultural inclinations, never showed much interest in the very rich heritage of the land he was ruling over. As Schumpeter once noted, "Keynes's advice was in the first instance always English advice..." then going on to describe Keynes as "fervently patriotic."⁵⁵

⁵⁵ See, for instance, Chandavarkar (1989, chapter nine). And see Schumpeter (1946, p.505). On Keynes's advocacy of British rule for India, see Skidelsky (1986, p.176). For the Keynes quotation on British rule over India, see Markwell (2006, p.21).

There was nonetheless a subtle revisionism to Keynes's stance in the book, namely he sided with the wisdom of extant Indian monetary institutions over the British forces that wished to push the country toward a more traditional gold standard. H.S. Foxwell, writing in 1913, expressed the book's charm well: "There is no doubt that to the ordinary Englishman, whose ideas on currency matters are not appreciably advanced beyond those of Lord Liverpool, the Indian currency system appears artificial and exceptional. Mr. Keynes easily shows that the English system, or rather the English theory, is the exception; and that the world to-day, England included, is really working more or less on the Indian principle."⁵⁶

Friedman and Keynes were writing about India in different eras (1913 vs. 1955), but it is striking that Keynes does not consider a floating exchange rate and paper currency for India, as Friedman favored later on. Indian Currency and Finance is preoccupied with the issue of exchange rate volatility, and also of easing trade and finance costs within the sterling bloc.

Overall, Indian Currency and Finance, *as a book*, though it is very good, is not of GOAT quality. The real achievement is that Keynes learned something from India, in a non-condescending fashion, and he later used that knowledge to help design a monetary order for the broader world. And *that* does reflect the very powerful and generative nature of his genius.

Note the difference: Friedman, after an initial stint in government and wartime planning, avoided government service like the plague. For Keynes, in contrast, the British Civil Service was his first choice as a career, and he started in the India Office from 1906 to 1908, with a 1913 stint on the Royal Commission on Indian Currency and Finance.

⁵⁶ Foxwell (1913, p.563). On Keynes choosing to work with the India Office, see Sayers (1972).

If you are curious about Keynes's other ideas on India, he argued for free trade, a repeal of the salt tax, and he drew attention to Indian famine. He did not emphasize human capital as Friedman did, though in his notes on population Keynes did suggest that families in China and India had far too many children to support economic development. At one point Keynes planned a trip to India, but for bureaucratic reasons the trip was going to be longer (six months rather than three) than what he could spare, and so it never happened.⁵⁷

As with Friedman, it is necessary to ask which broad and significant world-historical events and periods Keynes is associated with, but here the answer is an easy home run for Keynes, as it was for Friedman. Keynes started his career at the peak of the British Empire, which he wrote about for his first book on India. He was a major commentator on the Treaty of Versailles and the collapse of the post-World War One European order. He was a truly significant analyst of the Great Depression, whose advice resurfaces in virtually every recession or depression, he was part of the British World War II planning effort, and finally he was a major figure in the planning and construction and negotiation of Bretton Woods, the world's post-World War Two monetary and financial order. A+ for historical import.

As was so often the case, it is Joseph Schumpeter who understood Keynes best: "In those pages of the *Economic Consequences of the Peace* we find nothing of the theoretical apparatus of the *General Theory*. But we find the whole of the vision of things social and economic of which that apparatus is the technical complement. The *General Theory* is the final result of a long struggle to make that vision of our age analytically operative."⁵⁸

⁵⁷ See Chandavarkar (1989, chapter three) and Toye (2000, p. 50).

⁵⁸ See Schumpeter (1946, p.501).

Keynes as economic theorist

Keynes's biggest problem for GOAT status is, oddly enough, his theoretical economics. As Schumpeter described Keynes "...he had less than no taste for patient routine work..." And that included working through microeconomic problems carefully to make sure he got them right.⁵⁹

Keynes as a microeconomist was weak, even compared to the leading economists of his time, such as say Jacob Viner. If you try to read his microeconomic take on the elasticities involved in the "transfer problem" of 1929 (discussed in more detail below), it is hard to follow him and basically he got it wrong. His 1930 two-volume Treatise on Money never flows intuitively from a microeconomic point of view. The General Theory is riddled with microeconomic mistakes and ambiguities, such as confusions between movements of curves and shifts along curves, wages vs. the total wage bill, failures to consider the proper elasticities, poor terminology and unintuitive notation, mixing up average and marginal, and more. I don't think those problems invalidate the major arguments of the book, but if you read Keynes's entire body of work you'll never find a piece or book where he just nails the microeconomics. Because he couldn't.

Keynes learned economics, like he learned most other things, by talking to really smart people. Bully for him, and for his highly generative intuitions, but rigorous microeconomics wasn't part of his mental toolbox, nor can you learn rigorous micro through conversation alone. Nor did Keynes seem to want to master micro, though he certainly had the smarts to do so. It just didn't interest him that much, and perhaps micro reasoning didn't hold much status with Keynes's interdisciplinary peer group, including the Bloomsbury Circle (will you find concavity and talk of second-order conditions in Virginia or Leonard Woolf?).

⁵⁹ Schumpeter (1946, p.497).

Of course, since microeconomics is the most fundamental part of economics, that has to put a dent in his GOAT status. Keynes is an earlier economist than Friedman, of course, but not as much as many people think – recall that Friedman was getting started in the 1930s. Friedman was a ferociously capable and indeed brilliant microeconomist, as was also the early Paul Samuelson, so Keynes here really is just lacking.

Even in macroeconomics, the contribution of Keynes isn't quite as simple and decisive as you might think. Often today we associate Keynesian economics with a recognition of sticky prices and wages, as might be opposed to say the flex-price models of both the earlier classical economists and the later Chicago School. Yet that is not quite the proper way to frame what Keynes actually wrote. Keynes was worried that in his world *wages and prices were not sticky enough*, and he advocated policy measures to make them sticky and to stop a downward spiral of incomes and demand.

Furthermore, consideration of sticky wages and prices had been common in economics for a long time, dating back to Malthus, and the idea was a central notion of the macroeconomics of Irving Fisher much earlier in the twentieth century, as well as being a mainstay of British “pre-General Theory” analysis.

A second claim might be that the General Theory is about the theoretical potency of fiscal policy in combating depressions. But again that is reading Keynes too much through the eyes of the 2008 American financial crisis and the 2011 euro crisis. In Keynes's own time, endorsements of activist fiscal policy were common, and they significantly predated 1936, which of course was many years after the Great Depression had started. For instance, Lloyd George, leading Liberal

of his time, after leaving office was calling for an activist fiscal policy in 1924 to combat high unemployment, and that was hardly seen as a radical innovation at the time.⁶⁰

Keynes was more than happy to see additional fiscal policy, as evidenced by his famous remarks about pyramids and ditch-digging, but his real recommendation was the government socialization of investment. If anything, Keynes seemed to think that fiscal policy could not fill the aggregate demand gap because private investment was too unstable. And given the smaller size of government in Keynes's time, that partial skepticism about fiscal policy was an entirely reasonable assessment of magnitudes. Keynes was quite clear that he favored "an ever greater responsibility for directly organizing investment..." and indeed that was the major theme of the final chapter of the *General Theory* on implications of the theory. A very literal reading of Keynes is that he was a theorist of the *inadequacy* of fiscal policy, as it just didn't control enough of the economy. In the final chapter of the book he went so far as to call for the euthanasia of the capitalist rentier, and also the "somewhat comprehensive socialisation of investment," shortly thereafter noting this would be done in cooperation with the private sector rather than meaning private sector abolition.⁶¹

Keynes's other contribution to the theory of fiscal policy is, not surprisingly, a vivid metaphor. Keynes understood fiscal policy in terms of digging ditches and filling them back in again, and he argued that even wasteful government spending could boost an economy, due to its positive impact on aggregate demand. This passage is a wonderful example of the mesmerizing prose of Keynes in the General Theory:

⁶⁰ See Harrod (1959, pp.345-346).

⁶¹ On the "ever greater" quotation, see Keynes (1936, p.164), and pp.376-378 on euthanasia of the rentier and further issues related to socialization of investment.

“The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead, are twice as good as one; but not so two railways from London to York.”⁶²

We still hear this metaphor all the time, and this is my Exhibit A for my belief that the *General Theory* was one of the *best* written books of all time, in spite of its loops, obscurities, and analytical infelicities. How about this sentence fragment, which sums up more interesting economics than virtually any other bit of comparable length:

“...there is no such thing as liquidity of investment for the community as a whole.”⁶³

Or consider the famous “beauty contest discussion,” this being only one excellent sentence (fragment) of many:

“...professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole...”⁶⁴

It is not just that Keynes was a brilliant rhetorician, rather the rhetoric reflects how well he understood the ideas themselves. And if you had to pick up just one part of the General Theory to read, without requiring any particular kind of background knowledge, no doubt it would be chapter 12, “The state of long-term expectation,” Keynes’s single greatest achievement. In that

⁶² Keynes (1936, p.131).

⁶³ Keynes (1936, p.155).

⁶⁴ Keynes (1936, p.156).

chapter Keynes in essence lodged an objection to Hayek in advance, arguing that the prices for capital goods will reflect fads and trends rather than the actual valuations of those objects.

Yet however brilliant the writing, we are still a bit stuck on the question of what exactly is the main contribution of the General Theory.

In a famed 1937 essay, “The General Theory of Employment,” published in the Quarterly Journal of Economics in response to critics, Keynes argued that one contribution of the General Theory was to think of probability calculations in a manner that economic agents simply were unable to handle because they had no scientific basis. So much of the future is unknowable and not even reducible to standard probability calculations: “We simply do not know.” If you read that Keynes as primary, as indeed my early teacher Ludwig Lachmann did, Keynes was first and foremost a theorist of “the dark forces of time and uncertainty,” to cite a memorable phrase from the General Theory.⁶⁵

I don’t know. There are so many Keyneses, and his views were almost always in flux. That is indeed a plausible reading of *part of* the 1937 essay, but Keynes’s thought as a whole stressed how experts could obtain enough knowledge to set things right, and furthermore most of that essay dealt with other objections to the General Theory.

Another argument, popularized by Milton Friedman, is that Keynes’s main contribution was his presentation of the liquidity trap. For Friedman, monetary policy could bring an economy out of depression, and it might fail only under the strange circumstance when money and bonds paid the same return, thus turning open market operations into an irrelevant asset swap. Keynes, of course, presented related analysis in chapters 13 and 17 of the General Theory, though he also

⁶⁵ “We simply do not know” is from Keynes (1937, p.214).

expressed uncertainty about its relevance, and he was not sure that such a liquidity trap ever existed.

Again, I am not sold on that being the correct reading of Keynes, who to me is more of a multifaceted, slippery salamander. That Friedman read Keynes in this manner in fact reflects a limitation of Friedman, who always wanted to boil things down to clear, testable propositions. On net that is a very positive tendency, all the more so in Friedman's time, but still it seems that Friedman missed the broader point and also complexity of the General Theory.

Overall, I read the book as arguing there is a new thing, namely "depression economics." Furthermore, Keynes is denying that a comparison between the Great Depression and "normal times" can be boiled down to a simple *ceteris paribus* comparison, expressed by commitments to a few particular parameter values. Rather Keynes was doing what he was best at: putting forward a big picture, holistic view of a radically complex policy situation. I read Keynes as writing about an economy where uncertainty was much higher than usual, investment was highly unstable, fiscal policy was unable to fill in the gap, there was a risk or even reality of a downward spiral of prices and wages, monetary and exchange rate policies were out of whack, multipliers operate, the quest for savings could lower incomes overall, and the influence of liquidity factors on money demand and interest rates was especially high. *All at once*. And furthermore those conditions were threatening the British world that Keynes so loved. The purpose of the book was to get Britain out of the mess, and to prevent it from happening ever again.

You might argue "hey, that is too much to take on all at once!" Perhaps you would be right, but to insist on greater clarity is also to miss the chance of appreciating Keynes's genius. Sometimes real-world problems do indeed overwhelm our methodological desires for clean, simple models.

If you still want to stick with clean, simple models then...Keynes is not for you! Friedman missed the boat by insisting that Keynes had to be read through the clarity lens. Even if you agree with Friedman methodologically for most economic problems, it is not the best way to understand the General Theory or to understand Keynes more generally. And that is why people have found it so difficult to sum up the central message of Keynes's most important book.

If you forced me to give a direct, two-sentence summary of what is going on in the General Theory, I probably would choose this: "Saving, in fact, is a mere residual. The decisions to consume and the decisions to invest between them determine incomes." But I would resist. Still I would prefer my own scabbled-together take of "a whole bunch of things are going on and that make depression economics fundamentally different."⁶⁶

In terms of the social, political, and cultural message of the General Theory, Keynes is pretty clear in the last chapter of the book, which is appropriately entitled "Concluding Notes on the Social Philosophy Towards Which the General Theory Might Lead." He argues that the role of the rich in accumulating capital and driving progress has been overrated, and thus he seeks a revaluation of the status of the wealthy. Inequality of wealth is thus not so easily justified, and the case for high inheritance taxes is stronger than we had thought.

Keynes also revisits his attitudes on money-making and greed, a bugaboo for him since his early days. He admits that money-making is justified as a means of channeling human energies to productive activities, and furthermore the pecuniary motive channels energies that might otherwise go into "...cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement." Nonetheless, it is not necessary "...that the [money-making] game should be played for such high stakes as at present. Much lower stakes will serve the

⁶⁶ For the quotation on saving, see Keynes (1936, p.64).

purpose equally well, as soon as the players are accustomed to them.” One wonders what Keynes would have thought of the 21st century. In a nod to Bolshevism, he then continues: “The task of transmuting human nature must not be confused with the task of managing it.” But in a nod to capitalism he adds that “...it may still be wise and prudent statesmanship to allow the [money-making] game to be played, subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion.”⁶⁷

Keynes made it clear that he still favored individualism as a philosophy, but he wanted to purge it of its “defects and abuses.” He wanted to widen the scope for personal choice and safeguard the variety of life, arguably a reference to his earlier Cambridge pursuits, whether philosophical or sexual. He admitted that his proposals would cause many classical liberals to recoil in horror, but he thought his proposals were the best way to prevent a wholesale destruction of the prevailing economic order. He also argues – and this was a very important point for Keynes – that his proposals would boost the chance for peace, as with full employment there will be a greater harmony of trade interests amongst nations.⁶⁸

It is common and entirely correct to regard Keynes as a macroeconomist. It is less commonly understood how much he was a macro-oriented macroeconomist, namely taking a macro point of view – analytically -- on macroeconomics itself. And whether or not you think Keynes was *the* GOAT, *along that particular dimension* he was clearly GOAT. He learned that holism from his earlier Moorean and Cambridge cultural environment, he defied the ability of many economists to categorize him, and that is also a big reason why Keynesian ideas and rhetoric have so resonated with the educated general public and policymakers for so long. They too often think in

⁶⁷ All from Keynes (1936, p.374).

⁶⁸ Keynes (1936, pp.380-382).

big, holistic terms. But if you are instead a rigorous microeconomist, the General Theory will frustrate the hell out of you.

If you want “simple Keynes,” you can find the most Friedmanite side of Keynes in his A Tract on Monetary Reform, published in 1923. In this book Keynes argued for price stability, analyzed the dangers of both inflation (discourages investment) and deflation (damages output and employment), and calls for a system of floating exchange rates with only a broad peg on the price of gold relative to the pound sterling. He focused on targeting prices rather than controlling the money supply per se. In this regard Keynes was ahead of Friedman and more in tune with macro experience since the 1980s, which has shown that monetary targeting does not work, but that the central bank still can use the monetary side to manipulate aggregate demand.

A Tract on Monetary Reform is a good book for understanding Keynes, because you can see how many sides he has, and how facile he is with argumentation in general. You also can see how well Keynes understood the classical monetary theory of his time, and indeed he helped formulate it. Keynes, however, also had the intellectual flaw of, as he was so much in constant intellectual motion, he over-rebelled against many of his previous views. That is one reason why Friedman developed a huge empirical body of literature on monetary economics, and Keynes never did, despite later in 1930 publishing a two-volume set of monetary theory, Treatise on Money. The “mono” nature of much of Friedman’s focus may have limited his perspective, but it did drive him to create enduring literatures and institutions, whereas Keynes had to rely on inspiring others with his more scattershot brilliance.

Another striking difference between Keynes and Friedman is in the level of institutional detail. Keynes holds forth on some very particular matters of British and American monetary and fiscal policy, and his arguments for floating exchange rates are rooted in the concrete details of his

time. For instance, he is worried that a fixed par with gold would make the pound sterling too dependent on American monetary policy (oddly Keynes himself later helped to erect exactly such a dependence when creating the Bretton Woods system – more on that later). Keynes didn't just talk to governments, he listened to them. In contrast, if you read Friedman's famous essay on floating exchange rates, it is more abstract and "country-neutral," even though Friedman was drawing upon his work advising Germany. Whether this is a plus for Keynes or Friedman may depend on context. Nonetheless, Keynes had a keener understanding than Friedman did that a macroeconomic policy has to be both politically sustainable and also politically marketable. Friedman, in his approach, was closer to that of the proverbial broken record player.

Keynes's 1923 book also is, unintentionally, one of the best arguments *against* Friedman as GOAT. As early as 1923, Keynes came up with his own version of monetarism. It did not have the heft of Friedman's empirical work behind it, but in some ways it was closer to the truth, both in terms of emphasizing prices rather than money supplies, and having a deeper understanding of politics. Keynes also paid greater attention to the issue of exchange rate volatility under floating rates, if only as a political issue, than Friedman did in his classic essay on the subject. If Keynes beat Friedman to the punch by decades, and on Friedman's major area of contribution, that diminishes Friedman's claim to GOAT.

Keynes's next major work on monetary theory, mentioned above as Treatise on Money, shows some of the limitations of the Keynesian research method. Keynes, like Hayek, could flounder on fruitless tracks for years without making much progress. Treatise on Money is almost eight hundred pages, and Keynes worked on it for seven years on and off, but even on my second read of the book I didn't get much out of it. It is too complicated and it paints itself into too many corners and obsesses too much over taxonomy. I am not at war with the basic perspective of the book, a plea for reaching monetary equilibrium through a better monetary policy, but the whole

thing just doesn't work. Hayek and Hansen published negative reviews, and Keynes later admitted that Hayek and the other critics were right. In 1930 Keynes already had written to his parents that "Artistically it is a failure – I have changed my mind too much during the course of writing it for it to be a proper unity."⁶⁹

Perhaps most worrisome of all, unlike most of Keynes's other writings, Treatise on Money did not turn out to be politically astute or in tune with the spirit of its times. By 1930, a major depression was raging in Great Britain, but Keynes alas was still playing around with ideas from the macroeconomics of the earlier 1920s.

Chips from the workbench

What about Keynes's chips from the workbench?

Keynes's 1933 piece "National Self-Sufficiency" I find intriguing, brilliant, and totally wrong-headed. It is an excellent piece to read for understanding Keynes and his extreme flexibility of mind. Keynes had been a nearly dogmatic free trader for the earlier part of his life, and again he sought to restore global trade with his Bretton Woods work. Yet in this piece, written during one of the very bad spells of the Great Depression, Keynes digs out every argument for protectionism he can find. He wants to restrict capital movements and make finance primarily domestic again, and argued that goods should be produced by each nation, while ideas and science still would flow across borders. He suggests that economic internationalism did not do much to procure peace leading up to 1914 (fair enough), and that the international division of

⁶⁹ On Keynes's years working on Treatise on Money, see Harrod (1959, p.386) and Skidelsky (1992, p.314), the latter including Keynes's letter to his parents.

labor no longer brings large economic gains. In the meantime, tariffs might help boost British employment and furthermore he was worried about economic crises induced by capital flight.⁷⁰

This is not the time or place for me to adjudicate these larger disputes. What is striking about this piece is how well Keynes is able to “get inside the head” of free traders – he had been one himself – and counter their views in what was, at the very least, a rhetorically effective manner. This piece will make you both more impressed by Keynes and more frightened of him.

Keynes’s 1940 short book How to Pay for the War is another example of Keynes’s extreme mental flexibility. After the triumph of his 1936 General Theory, Keynes now faced a new problem in fiscal policy, namely how Great Britain should pay for a new World War. Keynes argued that the British economy was now supply-constrained, he was concerned about the long-term fiscal future of the empire, and he called for a program of forced savings. He was clear as day that the recipes from the General Theory no longer applied: “That is the elementary fact which in a democracy the man in the street must learn to understand if the nation is to act wisely – that the size of the civilian’s cake is fixed...the public as a whole cannot increase its consumption by increasing its money earnings.”⁷¹

Keynes’s A Treatise on Probability, his second book from 1920, weighs in at over five hundred pages and hardly counts as a “chip.” He spent five years working on it in his 20s, and arguably it was his most ambitious project. While most of the book is boring and technical and also dated to the contemporary reader, I think of it as Keynes trying to establish induction and indeed all reasoning – including moral and social reasoning -- on a sound footing. Keynes was setting out to rescue Britain from skepticism and pragmatism, and to justify both knowledge and action,

⁷⁰ See Keynes (1933).

⁷¹ Keynes (1940, p.5).

using a sophisticated form of probabilistic act consequentialism. Its ambition is remarkable, and if only for that reason it is a key work for understanding Keynes.⁷²

It is debatable how well the work has held up. Keynes puts forward a blend of objective and subjective approaches to probability and probabilistic reasoning, but the common opinion is that the book review of young mathematician genius Frank Ramsey knocked down Keynes's contribution. Ramsey's approach, in turn, pointed toward later Bayesian methods and also subjective expected utility theory, which were to take over economics. Ramsey and others ended up taking probability theory in a more pragmatic direction, undercutting some of Keynes's broader ambitions. At times, Keynes's "relations of partial implications," as they were called (don't ask!), seem almost like Platonic entities, and overly objective in their construction, hardly a surprise from the aesthetically inclined Cambridge guy. For Keynes, those relations of partial implications were the underlying foundation behind rational belief, and it was rational belief that Keynes wanted to justify and defend.⁷³

Overall, the book failed. But is it so ignoble to arrive at the point where one is refuted by Frank Ramsey? A Treatise on Probability still is a marker for just how smart Keynes was. After all, both Bertrand Russell and Alfred Whitehead, although probably wrong in their own views, were very impressed by Keynes's efforts and arguments.

I am myself most interested in the section of this book that considers its implications for social theory, namely Chapter XXVI, "The Application of Probability to Conduct." Keynes places himself in the tradition of the Jesuits and the Port Royal philosophers in desiring to use

⁷² See Harrod (1959, p.133 and also pp.651-656) on just how important the Treatise was to Keynes.

⁷³ On Keynes, Ramsey, the reception of the book, and the relations of partial implication, Runde (1993) is a good source, and see also McCann (2003).

probability to guide human conduct. He also cites Joseph Butler's Analogy which claims "To us probability is the very guide of life."

Keynes is keen to argue that probability is a guide to action even if we believe that goodness is partly organic, implicitly the classic view of fellow Cambridge Apostle G.E. Moore, a major influence on Keynes. Goodness does not have to be an arithmetic sum, or based on certain calculations, to be amenable to rational assessment. In this regard he was declaring that decision-making was rational and induction was justified, whether one was a follower of G.E. Moore or the Benthamite utilitarians or perhaps somewhere in between. This "in between-ism" was to turn out to be a classic move of Keynes, namely that he wished to reconcile clashing traditions in British thought and find a suitable way forward for his critics at most points along the "utilitarian-to-Moorean holism" philosophical spectrum. Keynes, in his capacity as a policy advisor, often acted as a utilitarian, yet his personal justification were of a more aesthetic, philosophic, and symbolic nature, and he wished to show that mathematical and probabilistic thinking were at the disposal of those perspectives as well. Keynes was always wanting to have his cake and eat it too, and that accounts for both the brilliance and wide-ranging nature of the Treatise, but also some of its strained arguments as well. Not everyone can in fact be right at the same time.

It seems odd to call Economic Consequences of the Peace a chip off the workbench, but as a book it doesn't hold up very well. There isn't much explicit economics, other than a series of claims that Germany cannot and will not pay off its Versailles burdens. Keynes, however, does not offer even much of a simple analysis of debt to GDP ratios. Was it really so impossible for Germany to pay off sums that, by the late 1920s, were not going to exceed 2.5 percent of German GDP? (For purposes of contrast, the country was able to afford a more expensive rearmament under Hitler.) Maybe, but you won't learn why in this book. Or what about those countries that

were 2.5 percent poorer than Germany at the time? Were their heads simply going to explode from lack of adequate resources? Did they all turn to totalitarianism and war? For the contemporary reader, there is the uncomfortable possibility that Keynes's Versailles writings, in practice, supported the Dolchstoß or "back stab" legend that boosted the German fascists and Nazis.⁷⁴

The stronger argument against the Treaty of Versailles was the political argument that the German public would regard the burden as impossible or unjust – even if unfairly – and rebel against it. Keynes understood this point well, but he didn't put up an economic analysis of comparable quality. As for political insight into the motives of the Treaty participants, Economic Consequences book does not compare well to Keynes's own opening essay in Essays in Biography on the Four Powers at Versailles. You also will not get much of a systematic or theorized look at the constraints facing the German government or German political opinion. Arguably, on net, it is one of the more overrated books of the twentieth century.

Nor was Keynes's participation in the 1920s debate over "the transfer problem" especially effective. The transfer problem, as it is called, is a knotty technical issue mostly beyond my purview here. But to oversimplify a little, Keynes was arguing that for Germany to pay its debts it first had to succeed with higher exports, and furthermore that the debt payments themselves would shift the terms of trade against Germany, leading to a further burden. Bertil Ohlin, one of Keynes's critics, argued instead that paying off the debt would depreciate the German mark, in turn boosting German exports and somewhat (by no means entirely) lowering the debt burden on Germany. Subsequent commentators, including Harry Johnson, Robert Mundell, and even Paul Samuelson, all judged Keynes to be wrong. Furthermore, and perhaps oddly, it is Ohlin's argument that closely resembles the "Keynesian open economy macro analyses" that were to fall

⁷⁴ For the 2.5 percent estimate, see Hantke and Spoerer (2010, p.849).

out of Keynes's later General Theory. Keynes in 1929 on the transfer problem wasn't being Keynesian enough, and it is hard to avoid two conclusions. First, in this debate his microeconomics just wasn't very good, and second he was letting his politics skew his economics, probably to the detriment of both. This is all a technical enough matter that hardly anyone knows about it, but overall it does not show Keynes in such a great light, much less a contender for GOAT. Even Paul Samuelson admitted that Keynes flat out lost this debate to Bertil Ohlin.⁷⁵

Economic Consequences was indeed the right book at the right time, and Keynes came from just the right British civil service position to write it. It is suitably complicated and a bit contorted. You could read into it your own vision for the future of Europe and the role of America. It defined the discussion for a decade. It definitely counts as a marker of Keynes's political acumen, marketing skills, and ability to absorb multiple influences and convert them into a product of real reach and influence. The book also showed a deep understanding of the importance of an inclusive, cooperating Europe, and that vision was to resonate much later with the founding of the European Community, an act that Keynes helped to lay the political foundations for. That is all impressive, but in terms of GOAT the book does little to push Keynes's claim forward.

My favorite book by Keynes is his Essays in Biography, published in 1933. Joseph Schumpeter, who knew Keynes, claimed the book "sheds more light on Keynes the man and Keynes the scholar than does any other publication of his."⁷⁶

⁷⁵ On adjudications of the debate, see Gomes (2010, especially the Appendix and p.233) and also Samuelson (1981, p.365). For the original pieces, see Keynes (1929a, 1929b, 1929c) and Ohlin (1929), among other works.

⁷⁶ Schumpeter (1946, p.496).

It is a highly regarded book to be sure, but still it is an underrated book because relatively few people have the background to appreciate the stunning combination of Keynes's descriptions of political psychology at Versailles, Keynes as literary stylist, and Keynes as an analyst of the history of Cambridge economics and indeed Cambridge economists (Malthus, Marshall, and Edgeworth). Furthermore, it is a Straussian book with hidden messages, with Keynes both comparing the Cambridge economists to each other to find his GOAT, and comparing the political and academic mindsets, as well as comparing the British aristocratic, French, and American mindsets. It is a superbly *philosophical* work throughout, drawing on Plutarch as an inspiration, and the selection and arrangement of essays is no random accident but rather reflects Keynes's own understanding of the need for synthetic intelligence, and thus his (Straussian) self-nomination of himself as GOAT. It is also the highest quality of literary styling Keynes ever achieved. How can I not love such a book and also the author of such a book?

The very first section on The Council of Four at Versailles is a more stunning indictment of the process than anything Keynes wrote in *Economic Consequences of the Peace*. In Keynes's vision, treaty politics is most of all about the personalities of the protagonists (Clemenceau, Lloyd George, Orlando of Italy, and Woodrow Wilson). Clemenceau was haughty, relentless, unsentimental and vengeful, using his skill and high status and manipulative powers to the detriment of the final agreement. Lloyd George was sensitive to the point of having telepathy, but without the overriding urges and lodestar and vision of Clemenceau. Wilson was naïve, sincere, self-deceiving and manipulable. How is this for one of Britain's intellectual aristocrats taking down an American leader?:

“The President [Wilson] was not a hero or a prophet; he was not even a philosopher; but a generously intentioned man, with many of the weaknesses of other human beings, and lacking that dominating intellectual equipment which would have been necessary to cope

with the subtle and dangerous spell-binders whom a tremendous clash of forces and personalities had brought to the top of triumphant masters in the swift game of give and take, face to face in Council – a game of which he had no experience at all.”⁷⁷

Lloyd George was weak in yet a different way, and to George Keynes devoted an entire biographic essay, here is one part:

“Lloyd George is rooted in nothing; he is void and without content; he lives and feeds on his immediate surroundings; he is an instrument and a player at the same time which plays on the company and is played on by them too; he is a prism, as I have heard him described, which collects light and distorts it and is most brilliant if the light comes from many quarters at once; a vampire and a medium in one.”⁷⁸

The portrait of George is to be contrasted with Keynes’s more positive treatment of Churchill, prescient for 1933, and mostly taking the form of a review of Churchill’s book The World Crisis, 1916-1918. Keynes overflows with praise for Churchill’s acumen, and saves his main criticism for Churchill’s account of the political psychology of Versailles and the Council of Four, in Keynes’s view insufficiently informed by personal experience and not keenly enough insightful into the character flaws of the protagonists.⁷⁹

Keynes also lionized Lord Oxford [Herbert Henry Asquith] in his portrait of him, Oxford having been Home Secretary, Chancellor of the Exchequer, and Prime Minister from 1908 to 1916. First, Oxford was an extremely powerful intellect, though of a particular kind:

⁷⁷ Keynes (1933, pp.13-14).

⁷⁸ Keynes (1933, p.35).

⁷⁹ Keynes (1933, p.78).

“Lord Oxford’s intellect combined rapidity of apprehension, lucidity, critical sharpness, a copious and accurate memory, taste and discrimination, freedom both from prejudices and from illusion, with an absence of originality and creative power; and I am not sure that this want of originality was not one of the most necessary of the ingredients to produce this successful combination. His mind was built for the purpose of dealing with the given facts of the outside world; it was a mill or a machine, not a mine or a springing field.”⁸⁰

Yet Oxford also was a doer, and “[f]ew men have accomplished in their lives more hard work than Lord Oxford.” All of this was a deliberate contrast with Lloyd George, who succeeded Lord Oxford as Prime Minister. Yet Keynes also claimed to identify Lord Oxford’s flaw, namely that he was so sensitive that he ended up withdrawing from the public sphere, as he disliked “the outrages of public life.” In turn, over time, he lost his earlier virtuous reputation, simply by failing to remain on the scene of public life.⁸¹

Keynes in fact penned one of the greatest books on human talent ever written, and like Friedman, but from a very different angle, he was obsessed with issues of human capital.

I would love to go on more about Keynes’s treatments of Malthus and Marshall, but mostly I will save that content for my discussions of Malthus and Marshall, to be found in later chapters.

But to consider just one relevant point, the most illustrative passage in Essays in Biography comes in the chapter on Marshall, and here is Keynes on greatness in economists:

⁸⁰ Keynes (1933, p.50).

⁸¹ Keynes (1933, pp.48-51), with the quotation on p.51.

“The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy and pure science? Yet good, or even competent, economists are the rarest of birds. An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare *combination* of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man’s nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.”⁸²

Keynes then notes that Marshall possessed many but not all of these gifts. At this point, it is only the dummy who does not grasp that Keynes is in fact describing himself.

Keynes calls Malthus “the first Cambridge economist,” and then considers the other notable Cambridge economists of Marshall, Edgeworth, and Ramsey. He is writing the tale of his own intellectual lineage, and how, as the man who synthesized contemplation, writing, and action, he is GOAT. Keynes is the only economist in my treatment who made the best case for himself.

⁸² Keynes (1933, p.170).

Do we need to cancel Keynes?

Uh-oh. There are three big strikes on Keynes's record that I am aware of.

The first was anti-Semitism. Keynes was anti-Semitic and he did not try to cover this up in his writings. For instance, in his essay on Bolshevism Keynes remarked that the economic ineptitude of the Russian Slavs had put them, "more than any other Europeans at the mercy of their Jews." In his private correspondence there is more along these lines, and in general he does not hesitate to characterize Jews as avaricious money lenders in a not very tolerant tone. Furthermore this anti-Semitic rhetoric persisted in Keynes until at least 1945. If you would like a note of offset, however, Keynes was clearly pro-Zionist, and he showed no sympathies for the campaigns against various Jews during his lifetime. As Robert Skidelsky put it "Keynes's own stereotyping took place on the philosophical, not vulgar plane", and "There is no evidence that it influenced his personal conduct."⁸³

Prejudice of this kind is deplorable, but it does not disqualify Keynes's claim to GOAT. I don't want to cancel Keynes, though this does mean he will not win "Greatest Person of All Time." I also think there is a broader correlation in the earlier part of the twentieth century between aesthetic approaches to politics and society and prejudice. Once the standard is aesthetic, rather a strict liberal egalitarianism of equal human rights, there is an opening to be nasty about people and groups you do not like, and for those prejudices to be elevated in their political import. Keynes really *wanted society to be a certain way*, and his understanding of the Jews of his time

⁸³ On Keynes and anti-Semitism, see Chandavarkar (2000). On the persistence of Keynes's feelings toward the Jews, and for broader historical context, see Reder (2000). And see Skidelsky (1992, p.239).

was that they were too greedy and money-loving to support Keynes's vision. While Keynes always opposed fascism, the dangerousness of his approach should make us more wary of him as a political thinker. Furthermore, there is another useful point here: if you are one of those people who goes around yapping about Milton Friedman and Pinochet, or whichever other examples or supposed examples of wrongdoing you are obsessed with, there are some more serious skeletons in the closet to go visit.

The second issue was Keynes's embrace of eugenics. Keynes was concerned, you might say obsessed, with insuring that high quality people were born and moving into the British elite. It was not just the quantity of the population that mattered, as Malthus had suggested, but also the quality. If you were going to rely on elites to manage so much of society, you needed to ensure those elites were as smart and as responsible as possible. Keynes thus engaged extensively with the science of heredity throughout his life. Just as he worried about laissez-faire in the more narrowly economic sphere of life, so did he also worry that laissez-faire in population would lead to a suboptimal quality of human being. He claimed for instance that "Almost any measures seem to me to be justified in order to protect our standard of life from injury at the hands of the more prolific races. Some definite parcelling out of the world may well become necessary; and I suppose that this may not improbably provoke racial wars."⁸⁴

Note that these concerns were not passing interests of Keynes, rather he was director of the Eugenics Society from 1937 to 1944. As late as 1946 Keynes was praising eugenics to the skies,

⁸⁴ See Magness and Hernandez (2017) on this parallel on laissez-faire. For the Keynes quotation, drawn from his manuscript on population, see Toye (2000, p.71). In [The Economic Consequences of the Peace](#) the need for Europe to cooperate to overcome its population pressures is also a theme.

calling it “the most important, significant, and, I would add, genuine branch of sociology which exists.” That was during his address to...you guessed it...the Eugenics Society.⁸⁵

Maybe you are wondering why this reality is not better known? The classic edition of Keynes collected writings did not reprint two pieces on “population ethics,” and furthermore Roy Harrod, friend of Keynes and his first major biographer, was careful not to raise these questions. The prevailing pro-Keynes left-leaning intelligentsia of America, such as Paul Krugman, hasn’t been keen to emphasize it either.⁸⁶

In his defense, Keynes never proposed any specific eugenics policies other than the ready availability of contraception, but he did express a general concern about the quality of people. He also saw race war as possibly on the horizon and he definitely was rooting for the white Europeans. So I don’t think this was “only a birth control sort of thing.”⁸⁷

Like his anti-Semitism, I don’t think eugenics was a secondary or accidental characteristic of Keynes’s thought, but rather it stood at the heart of his progressivism.

The point was to improve human life, and to improve people, and if selective breeding could contribute to those ends then full steam ahead. Why *not* make people better? Again, one drawback to putting aesthetics at the very forefront of your social philosophy is that, if you see something you regard as unaesthetic, there is no higher principle to steer you toward tolerance.

⁸⁵ See Singerman (2016, p.540), referring to Keynes’s address to the Eugenics Society in 1946 and covering Keynes on eugenics more broadly.

⁸⁶ For those pieces, see Toye (2000).

⁸⁷ See Toye (2000, pp.230-231). And on the seriousness of Keynes’s commitment to eugenics, going beyond birth control, see Magness (2020).

On eugenics, it can be said that many progressives of the time believed in it, and many of its dangers were not yet apparent, nor had the Nazis spoiled it irreparably. Still, the interest in eugenics reflects a weakness in Keynes's thought. Keynes will criticize particular government actions quite severely, but he is ever so trusting in government as a general mechanism, *provided the right people are in charge*. I am myself skeptical that there is a clearly defined notion of who "the right people" might be, and thus I am on public choice grounds far more skeptical of government than Keynes was. Yet, if you reject Keynes on eugenics as I think you should, you need to face up to how we got there. You need to reject the import of "the right people being in charge" and that in turn may make you less Keynesian more broadly.

From my own libertarian point of view, I am not close to trusting either government or the elites with that mission, but for Keynes that kind of critical response was not so readily available. Keynes's embrace of eugenics did show – as does indeed the rest of his thought – that he didn't have a deep enough, or dare I say cynical enough, understanding of political economy and the incentives of government. So I am not trying to use eugenics to turn you against Keynes, rather I am trying to use eugenics to illustrate Keynes's partial naivete, and to identify the nature of that naivete.

In Keynes's Essays in Biography it is striking how much he cites heredity as a factor behind great men, noting that Keynes's own father John Neville Keynes was one of the leading British economists of his time. "Heredity is mighty..." he wrote when discussing Marshall, but he applied that point to many of his biographical subjects, often leading with a discussion of their family backgrounds. On the environmental side, Keynes also compared Marshall's father to James Mill, noting how hard those two dads worked their sons. I find this all insightful rather

than objectionable, but again it shows that for Keynes eugenics was a major preoccupation pervading much of his thought.⁸⁸

The third no-no was the preface to the German-language edition of Keynes's General Theory, written by Keynes himself and then translated into German (and yes I am able to read it in the original German). In case you don't already know, Keynes stressed that his investment philosophy was more compatible with totalitarianism than with laissez-faire. Here is the key passage in English (words written by Keynes, not a translation back from the German): "Nonetheless the theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given output produced under conditions of free competition and a large measure of laissez-faire."⁸⁹

I don't think Keynes had sympathies with Naziism, and he worked very hard to help Britain defend itself and win the war. His wartime advising was highly significant, but even on the micro level he was deeply involved in protecting Britain. For instance, one night in 1942, he, along with Hayek, was reported to have spent a night on the roofs of Cambridge buildings, working to extinguish the incendiary fuses from German bombs that landed on historically important buildings. Presumably this labor was somewhat dangerous, both because of the bombs and because of risk of falling or otherwise sustaining injury.⁹⁰

⁸⁸ For the quotation and the parallel with James Mill, see Keynes (1933, p.152).

⁸⁹ On this episode, and for a reproduction of what Keynes wrote, see for instance Pernecky and Richter (2011).

⁹⁰ On this episode, see Samuelsen (2014). It has been suggested to me, by Andrew Farrant, that this incident cannot be confirmed, so there is a chance it is apocryphal.

Furthermore, I think Keynes is largely correct in his point about fiscal policy and autocratic governments, as evidenced by the successful Chinese deployment of fiscal stimulus in 2009 to stave off a major pending recession. China is not economically speaking a totalitarian state, but it does exert much more control of private capital than do the Western economies. That said, I don't think we should feel entirely comfortable with Keynes's deployment of rhetoric here. It shows he was too flexible a thinker, too willing to market his ideas at the expense of ideas of liberty, and insufficiently suspicious of state power, all themes that have emerged in other parts of the discussion above. This episode should clinch the relevance of those concerns about Keynes.

You also could argue that each of these negative instances in Keynes's career is made worse by the existence of the other two. Excessive trust in a particular kind of authority, and imagining himself and his associates at the steering wheel of power, was a systematic pattern in Keynes's thought, not the result of some poorly thought out sputterings or mere short-run opportunism.

In sum, these moral failings do not in their own right lower Keynes's chances for GOAT. But they do correspond to positive failings in Keynes's understanding of the world, and his poor understanding of political economy does, for me, harm his GOAT potential. But please do not think I am joining the ranks of the moralizers here, any more than the Kobe Bryant rape trial (he was acquitted but under suspicious circumstances) would induce me to lower his rating as a basketball player. If in lieu of these political economy mistakes, Keynes had instead committed some vile crime, his GOAT-ness would be in better shape and by such an episode it would not be damaged at all. But the reality is that he did make some significant political economy mistakes, and those intellectual mistakes are reflected in the more questionable episodes in his career.

What else did Keynes do?

Just as Milton Friedman built up the academic environment at the University of Chicago, so did Keynes have other academic projects. Most notably he was editor of Economic Journal from 1911 to 1945, a formative time for the economics profession and of course back then there were only a few reputable journals period. Keynes held an incredibly powerful academic position, and he was actively involved in the affairs of the journal for all of those years. Schumpeter wrote: “Many articles grew out of his suggestions; all of them received, from the ideas and facts presented down to punctuation, the most minute critical attention...I feel confident of speaking for all of us when I say that, taken as a whole, Keynes the editor has had no equal since DuPont de Nemours managed the *Éphémérides*.”⁹¹

Keynes as editor intersected with Milton Friedman at the very beginning of Friedman’s career as an economist. Early in his graduate school career, Friedman wrote an article criticizing Arthur C. Pigou on the elasticity of demand, believing that Pigou was in error, and he submitted the article to Economic Journal with Keynes as editor. Keynes conferred with Pigou, who did not agree with Friedman, and then Keynes rejected the article, which shortly thereafter was published in The Quarterly Journal of Economics, constituting what Friedman describes as his first economics publication. Ironically, Keynes had had his own earlier dispute with Pigou over questions of spending and consumption behavior (will “the Pigou effect” restore full employment in deflationary times?), though with different criticisms than Friedman deployed.⁹²

He was a successful investor, most of all in the 1920s, starting with currencies but then moving to cotton and other commodities such as lead, tin, copper, spelter, rubber, wheat, sugar, linseed

⁹¹ Schumpeter (1946, p.498).

⁹² See Taylor (2001, p.112), the piece being Friedman (1935).

oil, and jute. He participated in syndicates for newly issued securities, and continued as an active investor until 1937 when he fell ill for a while and abandoned investing. He also helped King's College invest its funds, though in that case with more caution and less success. Nevertheless "if you're so smart, why aren't you rich?" is not a query that could be used against Keynes. Keynes upon his death left a bequest of half a million pounds, a considerable sum for the 1940s.⁹³

Keynes also was a first-rate collector of art. For instance, he bought a Cezanne "apples" painting and also a drawing by Ingres, as well as charcoal sketches by Degas. He also bought Delacroix, Derain, Braque, and Picasso. In the view of this author, Keynes's selections were all signs of very good taste, and he worked more broadly to support artists and the visual arts. Later Keynes bequeathed the works to King's College and some of them can be seen in the Fitzwilliam Museum in Cambridge.⁹⁴

Also on the artistic and cultural side, Keynes helped Cambridge build a new theatre in the 1930s, putting up some of his own money toward that end, and overseeing many details of the process, including the quality of the chef attached to the theatre, and whether or not the bar should encourage the consumption of wine (yes) vs. cocktails and spirits (no).⁹⁵

Arguably Keynes's most important contribution to the world was being a lead negotiator and architect of the Bretton Woods international monetary order; I've already discussed how some of the key ideas here came from Keynes's very early work on monetary arrangements in colonial India.

⁹³ See the account of Harrod (1959, pp.299-302, and p.645 on the bequest), and see also Davenport-Hines (2015, p.281).

⁹⁴ On Cezanne and Ingres, see Harrod (1959, p.225) and see Davenport-Hines (2015, pp.266-269) on Keynes's art collecting more broadly.

⁹⁵ See Harrod (1959, pp.473-476).

Keynes played critical roles in Bretton Woods, ranging far beyond his command of macroeconomics. It is well recognized that Keynes was a superb negotiator and presenter during these sessions, speaking frankly and demonstrating a remarkable command of detail. Keynes at Bretton Woods had a remarkable team working with him, including D.H. Robertson, Lionel Robbins, James Meade, and Austin Robinson, all first-rate economists in their own right but also willing to accede to Keynes's leadership. Furthermore, as chief negotiator, Keynes understood that he could not afford to be the dogmatist, not even the Keynesian dogmatist. Rather as the leader, he knew, and knew he had to show, that practical policy would take priority over what he called "theology." Through Bretton Woods, and indeed the longer and broader career, Keynes ended up becoming "one of the great national forces of England."⁹⁶

In sum

Robert Skidelsky put it well: "Keynes displayed an awesome array of talents, without being pre-eminent in any...Keynes was great in the combination of his gifts. His achievement was to align economics with changes taking place in ethics, in culture, in politics and in society – in a world, with the twentieth century spirit." In this regard, as we will see, Keynes did for the twentieth century what John Stuart Mill did for the mid-nineteenth century.⁹⁷

Is that enough for GOAT? The case for Keynes requires a relatively high weight for "complicated, synthetic works of policy influence," and a relatively low weight on rigorous

⁹⁶ See Mackintosh (1947).

⁹⁷ See Skidelsky (1992, p.425) for the quotation.

microeconomic reasoning. But as you probably know by now, much as I admire Keynes I am not going to be dragged across the finish line by his case.

As for my own biases in assessing Keynes, I was taught early in my life that the General Theory was a deeply flawed and mostly harmful work, marred by numerous mistakes in reasoning, exposition, and microeconomics. Furthermore, Keynes did not take great care to read his intellectual opponents in the most reasonable or generous light, and he put politics before scrupulous accuracy in reasoning. My current view is that the General Theory is a brilliant work, marred by numerous mistakes in reasoning, exposition, and microeconomics. And just how great is his number two work in economics anyway? Is that all bias or is that seeing the truth? Either way, it is nudging me away from Keynes as GOAT.

Now let us turn to a very different individual, with quite different strengths and weaknesses, Keynes's one-time rival and direct critic, the Austrian economist and Nobel laureate Friedrich A. Hayek.

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CHAPTER 4

Friedrich A. Hayek

Friedrich A. Hayek (1899-1992) has what I consider to be the most unbalanced case for GOAT. His strengths are formidable, but the gaps and weaknesses are large.

First, when it comes to being tied to events of historical import Hayek does great. In advance of Milton Friedman, he predicted early on that communism would not work, and along with Ludwig Mises he provided a brilliant and deep account of why not. Markets and market prices mobilize decentralized knowledge in a way that central planning usually fails at, as I will consider below. If you look at the major Eastern European reformers and politicians in the 1990s, such as Vaclav Havel or the Polish reform architect Leszek Balcerowicz, they were very much influenced by Hayek and his arguments against government planning.

Second and I think most importantly, Hayek's three best articles are better than any three articles from any other economist. They might be better and more important than the *five* best articles from any other economist. Let's list them here:

“The Use of Knowledge in Society” (1945)

“The Meaning of Competition” (1948)

“Competition as a Discovery Process” (1968)

No matter what else you might have to say, those pieces put Hayek in GOAT contention, and without those pieces (or comparable rewrites you can find in Hayek’s broader corpus) he would not come close to GOAT status.

“The Use of Knowledge in Society” was the first and most seminal of the lot. Hayek started the piece by asking what is the nature of the economic problem, and he presented the nature of that problem as follows: “The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.” It is thus not a problem of how to allocate given resources to solve a given economic problem, with the relevant knowledge grasped in its totality, but rather how we might find the best decentralized mechanism for improving opportunities.⁹⁸

That point is arguably the most important insight of economics and Hayek is the thinker who owns it, with a hat tip to Adam Smith of course.

Hayek recognizes there is plenty of “planning” going on in markets, but it is not central planning, rather a kind of decentralized planning that continually experiments, and it has to bid for

⁹⁸ See Hayek (1945, p.519).

resources and pass market tests. Hayek insists that scientific knowledge is not the only form of knowledge but rather the knowledge of particular circumstances of time and place is critical as well. He then analyzes how markets are required to mobilize that knowledge. To the extent that the economic problem is one of “rapid adaptation to changes in the particular circumstances of time and place,” that calls for a heavy role for markets and market incentives. Hayek then talks through how an increase in the demand for tin would result in price changes, and economization of tin elsewhere in the economy, spreading the “knowledge” that tin is more valuable, and inducing people to behave accordingly, without any central authority able to possess that knowledge in any explicit form.⁹⁹

These days that might seem like simple stuff, but I and many others still remember reading it for the first time and yes it was a revelation.

And it is not just a lesson about economics, but rather a broader series of lessons about knowledge vs. information, the limitations of science, and the very foundations of civilization in decentralized mechanisms. Hayek realized this, and he focused on the broader implications of these ideas more and more as his career evolved. In the original essay he cited the Alfred North Whitehead point that “Civilization advances by extending the number of important operations which we can perform without thinking about them.” Hayek’s very significant addendum was that the market economy belonged to this broader category of systems that work without being fully understood by any one mind—or group of minds—in their particular details.¹⁰⁰

Once you grasp this Hayekian perspective, it is hard to turn back. You start seeing “the pretence of knowledge” everywhere, to borrow another Hayekian phrase, and you start thinking harder

⁹⁹ Again, Hayek (1945).

¹⁰⁰ For the Whitehead quotation, see Hayek (1945, p.528).

and more frequently about the properties of the decentralized systems you are observing. Hayek brings a sense of marvel to his readers that, amongst GOAT contenders, only Adam Smith can match.

If you are truly willing to internalize the content of Hayek's top articles, your marvel at the world does diminish in at least one way, namely you start thinking less of the economics profession and of the understanding of economists. For the most part, economists practice techniques of optimization, that is maximizing subject to known constraints. But Hayek is telling us that the economic problem is not one of optimization, but rather one of discovering the preferences and the constraints, and also learning about procedural rationality. You still might think the emphasis on optimization is necessary to produce testable propositions, but consider what kind of corrosive effect this might have on the economics profession. If you, as an economist, model constrained optimization for years and then decades, you probably will start to think of the economic problem in those terms. So if you are a Hayekian, it is difficult to avoid the conclusion that a significant percentage of professional economists have a quite skewed and radically incorrect mental model of the main thing they are studying, namely the economy. They think about the economy as an engineering problem when in fact it is a discovery problem.

Hayek's other top two essays are very much fleshing out pieces of this broader picture and they still rank among the best economics articles ever. "The Meaning of Competition" addresses the economics profession more generally, and it outlines how competition is a process of discovering prices, quantities, the best ways of marketing and distributing products, and so on. In Hayek's view, economic models of "perfect competition," which assume this knowledge already is known, are of limited value. Actual competition is about rivalrous behavior to succeed in a market, rather than being defined by the conditions of the model of perfect competition, namely perfect information and lots of buyers and sellers on each side of the market.

The third and final article in my nominated trilogy is “Competition as a Discovery Procedure.” This piece is based on a 1968 lecture, and it comes considerably later than the others. I view it as Hayek’s best and clearest statement of what competition is, namely a means of uncovering new knowledge about possibilities and feeding that knowledge into the decentralized mechanism known as the market economy. It is a very nice summary statement of what much of Hayek’s work and career have been about.

One of the important angles for appreciating Hayek is that you do not have to give these articles a purely pro-market gloss. Hayek largely did, and I largely do myself, but to the extent you are a market critic Hayek is indicating to you where you need to demonstrate malfunction. Kenneth Arrow took up this charge with gusto (see the separate discussion of his work), and we could not have had the contributions of Arrow without the prior framework of Hayek. “Here is why the decentralized mechanism of the market might malfunction” is a very useful question to debate. The work of George Akerlof on adverse selection (why the market for used cars is imperfect) and the general conception of market bidders playing game-theoretic strategies, as was explored by Leonid Hurwicz and others, all stems from Hayek’s initial insights into markets and prices. Hayek thus enables the very best criticisms from his opponents, and that is high praise for Hayek and his work, no matter what is your exact view of markets.

If there is any critique of Hayek on knowledge, it is that scientific knowledge also is often more about particular circumstances of time and place than his exposition let on. A microbiologist may have intuitions about what she is observing under the microscope, a regression may not pass the “smell test” of a good economist, and in general scientific knowledge has to be understood in terms of the very particular contexts it inhabits. Hayek went too far in conceding points to his opponents in presenting scientific knowledge as opposed to the knowledge of the marketplace. If

anything, Hayek was not being radical enough in understanding the importance of decentralized systems and knowledge that cannot be transmitted and stored at a central location. Hayek opposed “scientism” to his own emphasis on decentralized systems, but a properly deconstructed look at science would show a good deal of this supposed scientism to be based on decentralization as well.

Hayek is also noteworthy for having inspired so many businesses and businessmen, and that reflects the practical importance of his insights on decentralized mechanisms. A list of prominent business achievers who were influenced by Hayek on knowledge would include:

John Mackey (Whole Foods)

Charles Koch (Koch Industries)

Patrick Collison (Stripe)

Patrick Byrne (Overstock)

Brian Armstrong (Coinbase)

Peter Thiel (PayPal, multiple ventures)

John C. Malone (telecommunications and landholdings)

Jimmy Lai (Hong Kong entrepreneur)

Lars Seier Christensen (Danish, banking)

Chris Rufer (Morning Star, America’s leading tomato processor)

Jay and David Humphries (Tamko, roofing products)

Jimmy Wales (Wikipedia)

If you listen to Jimmy Wales talk about where the inspiration for Wikipedia came from, he is quite clear that Hayek was a prominent influence. Of course Wikipedia is directly based on the idea of mobilizing decentralized bits of information. Individuals know many different pieces of

information, they are free to add that information to Wikipedia, but Wikipedia has rules governing the acceptance of that information, with those rules themselves enforced in decentralized fashion. The result is the greatest encyclopedia ever built and one of the world's most popular and most useful web sites, all based on Hayekian ideas.

There is no other candidate for GOAT who has a list of business followers anything like this, and Hayek's influence here reflects the aforementioned ability of his work to induce a sense of marvel and discovery in his readers. It also has to do with the import of decentralized mechanisms. Business leaders are, all the time, working to design better decentralized mechanisms, and of course they are receiving feedback from the marketplace. Thus if an economist comes along and tells them about the importance of such mechanisms, it should come as no surprise that the message resonates. So if you think the perspective of the private sector is important – and surely an economist must – that is another good reason for considering Hayek for GOAT.

Milton Friedman has influenced many businesspeople, and he pushed them in a more free market direction. But he didn't bring an intellectual *revolution* to their thinking the way Hayek did. That in turn may diminish Friedman's claim to GOAT, at least relative to Hayek.

In addition to those articles, discussed above, Hayek has several other claims to fame.

He is prominent as a critic of the view that the social sciences should mimic the methods of the natural sciences, and furthermore should aspire to a pretense of relatively certain knowledge about empirical matters. For most of his career, Hayek was a relative skeptic of statistical methods in economics, and he stood very much apart from Milton Friedman on this issue, even though Friedman was a critic of many complicated statistical methods. Hayek insisted that many

of the most important facts of the social sciences were subjective in nature and thus not subject to ready quantification. Keynes did not adhere to Austrian subjectivism as Hayek did, but it is interesting that the two great economists of this time were both unpersuaded by econometrics.

For Hayek, to understand social phenomena, one had to know how people perceived a situation, what they expected, what they valued, and how they interpreted reality. Hayek with these points was reflecting the influences of his fellow Austrian economists (and precursors) Carl Menger and Ludwig Mises, Mises also being skeptical of most quantitative economics. Max Weber had made related points about the importance of understanding social situations, or “*verstehen*,” a German-language word still used in these contexts. For Hayek, trying to quantify and measure everything was uncomfortably close to the mentality of planning, as it implied that was a well-defined, centrally-defined, and unambiguous representation of the relevant information about the situation at hand. If central planning is impossible, perhaps social science based on objectified structures of information was going to be at least a little problematic.

Hayek also worried that social phenomena are so complex, as they involve so many more variables than many problems in physics, and such complex interrelationships amongst those variables. Models stand very far apart from reality, and, as we already have seen, much of the critical knowledge in social systems is held in decentralized forms, scattered amongst a wide number of individuals. Given the complexity of the relevant models, accurate prediction will be very difficult.

Hayek’s war against “scientism” and social science quantification probably is the biggest reason why his work is not more popular and his influence more widespread, as Hayek lost this intellectual battle. Whatever you think of scientism, scientism sells. You can present it to governments and multilateral agencies under the pretext, whether true or not, of it being

scientific. (That's why they call it scientism!) You can train students in it, and you can write and also referee scientific papers according to scientific standards, such as statistical significance, robustness, and so on. You can appear or perhaps even be...scientific. Scientism is thus robust at reproducing itself, but Hayekianism mostly is not, at least not in the worlds of the academy or government advising. Hayekianism is more like a voice crying out "Stop!", or perhaps "Worry!", or maybe "Not so quick there!" or in some cases "Liberty!" Whether or not those strictures are warranted, they are relatively cheap to produce, they do not evolve to be high status, and they do not yield their suppliers significant career rents in most cases. It is noteworthy that Hayek himself, working with Mises, in 1926 opened up a business cycle research institute in Vienna, the Austrian Institute for Business Cycle Research [Österreichisches Institut für Konjunkturforschung] devoted in large part to empirics and forecasting.

At the end of the day, scientism still seems better than "no scientism," given that the latter would leave the field open for highly irresponsible and also ideological -- ideological in all directions -- pieces of policy advice. Ask yourself a simple question: do you really wish the research staff at the Fed were "flying blind," rather than using the "scientific" tools they currently are applying to predict the effects of current Fed policies? Or if you don't think there should be any Fed at all, still is it not better that the Federal Communications Commission used the formal tools of auction theory, as validated by several economics Nobel Prizes, to sell off the spectrum frequencies it formerly owned?

Perhaps Hayek is best known for his best-selling book [The Road to Serfdom](#), published in 1944 and later excerpted in both [Look](#) and [Reader's Digest](#). Hayek starts the book by announcing it is a political book, and indeed it is, putting forward the view that economic and political liberty were closely interconnected, and both rest on a philosophy of individualism and bourgeois virtue. Many of the later tropes of libertarian argument can be found here, and among its other

virtues it is a good place to learn what Hayek really thought about individualism, liberty, the British, and socialism.

Shortly I will turn to the critiques of Road to Serfdom, but if you are looking for its major analytic economic contribution it is probably the chapter “Why the Worst Get to the Top.” Hayek suggests that decent people are not always good at maximizing their power, and he fears that systems with excessively powerful governments will attract the corrupt and the malicious, which in turn is an argument for limiting the powers of government. Hayek was more correct about dictatorships than democracies, and he underestimated the role of a free press, and also a common sense citizenry, in limiting the ascent of such individuals in electorally open democracies. Still, Hayek in essence was moving toward theories of adverse selection and heterogeneous agents, and building them into a model of political economy. Quite simply, he was telling us not to assume that all politicians are the same in quality, and to evaluate constitutions by thinking about whom they might attract and repel when it comes to the quest for public office.

In Road to Serfdom I also find quite interesting chapter 14: “Material Conditions and Ideal Ends.” Although Hayek does not mention Keynes or Schumpeter by name, I take this chapter to be his response to them on the cultural foundations of capitalism. Hayek seems to reject Keynes’s notion (“Economic Possibilities for Our Grandchildren”) that we can move to a society based on leisure and cultivation of the arts rather than full-time jobs. Hayek is quite clear that the relevant underpinnings of an advanced, individualistic civilization are “...independence, self-reliance, and the willingness to bear risks, the readiness to back one’s own conviction against a majority, and the willingness to voluntarily cooperate with one’s neighbors...” Maybe that sounds a little corny these days, but as a diagnosis of the actual foundations of capitalism it seems closer to the mark than what Hayek’s rivals came up with. Hayek later in his life became very pessimistic about these cultural questions, but he became a pessimist for reasons very

different than those of Schumpeter, who worried more about organizational stultification than individual depravity.¹⁰¹

Another major contribution of Hayek's was his 1960 opus The Constitution of Liberty. This was a book about social and political philosophy, rather than economics per se, but it was Hayek's economic insights turned into a political treatise. Just how high Hayek's reputation should go depends on this book to a considerable degree, which his student and editor Ronald Hamowy described as "his most ambitious and important work, in which he set out to sketch the structural outlines of a free society that would provide for the greatest amount of individual liberty consistent with the complexities of modern life."¹⁰²

I am largely in the skeptical category when it comes to The Constitution of Liberty. If you ask whether this book serves up many true, good, and needed statements, I would give it an A/A+. It is the biggest dose of Hayek you can get, and both then and now the world needs a great deal more Hayek and more Hayekian insights. Still, as a book, it does not strike me as a complete success. It is poorly organized and the argument does not quite hang together. It makes the basic Hayekian perspective more complicated, and I am not sure that is for the better. The policy chapters are under-baked, for instance chapter twenty-two "Housing and Town Planning" makes some perfectly fine points, such as arguing that rent control is bad. Still, it is a sign that Hayek didn't quite know where he was going with this book. At no point in his career did he show he was capable of pulling off a treatise this long.

At the end of the day, Hayek produced a very nice compilation of discursive arguments that a social democratic capitalist economy does much, much better than central planning, most of all

¹⁰¹ See Hayek (2007 [1944], p.217).

¹⁰² See Hamowy (2011, p.22).

because the former respects the notion of decentralized knowledge and the latter does not. Hayek, however, does not offer clear principles of delineation. For instance, he states clearly that liberty has virtues even when we cannot see those virtues: “From this foundation of the argument for liberty it follows that we shall not achieve its ends if we confine liberty to the particular instances where we know it will do good.” That is a perfectly fair point, and many libertarians have picked up on it. But what are we to make of the numerous instances in Constitution of Liberty when Hayek endorses activist government, such as say national health insurance? Is that not limiting liberty and innovation in the sphere of private health insurance? Whatever stance you might end up taking here, you won’t find sufficient guidance in Hayek’s book to navigate those thickets.¹⁰³

The middle segments of Constitution of Liberty put forward a number of claims about law and political philosophy, such as that judges should have greater abilities to order coercion than legislators, laws should not name particular individuals as beneficiaries and should be as general and abstract as possible, and Hayek’s claim that he had a meaningful notion of coercion that could determine when principles of liberty should be applied. I won’t go through those debates, but suffice to say, with the exception of a few low-status “fanboy” Hayek acolytes, I don’t know of many people who believe Hayek succeeded in those endeavors, even if they largely agree with his broader perspective. On his concept of coercion, for instance, he was refuted by his own student Ron Hamowy, who showed that Hayek’s concept was not coherent. It is not that all of Hayek’s claims and propositions are flat-out wrong, rather he did not build a framework for establishing the priority of his proffered principles when they must be compared to other, competing values. On top of all the particular problems in his arguments, Hayek’s basic problem is that he was not willing to accept utilitarianism, strong notions of natural rights, or historicism,

¹⁰³ See Hayek (2011 [1960], p.83).

so he was left without a real normative standard for evaluating all of the different claims he wished to put forward.¹⁰⁴

Not surprisingly, it was the now sadly neglected Jacob Viner who put his finger on the weak point in Hayek's argument. In his 1961 review of the book, Viner wrote: "He [Hayek] manages also to reach his conclusions without giving evidence that to do so he had found it necessary to labor with the weighing of competing values. Great as are the merits of his case, they are not overwhelming enough, I think, to explain how Hayek succeeded in reaching substantially unconditional conclusions and in avoiding what is, in social thought, the generally unavoidable and troublesome necessity of coping with major conflicts in values."¹⁰⁵

I view Hayek's later Law, Legislation, and Liberty (in three volumes) and The Fatal Conceit as subsequent attempts to work out the core problems in The Constitution of Liberty, and unlike most readers I prefer Law, Legislation, and Liberty as a work of political philosophy. The normative problems in that book are clearer, and Hayek more transparently uses the notion of spontaneous order, and his contrast of "cosmos vs. taxis," to try to draw moral distinctions across different systems of politics. Ultimately I read him as moving in a more historicist direction in his political thinking, though I don't think you can point to a place where he comes out and admits that. In other words, he views history as a kind of ultimate test of what can survive and what cannot. Of course this evolution was in marked contrast to The Constitution of Liberty postscript entitled "Why I am Not a Conservative."

In my own view, both markets and states are spontaneous orders, and government is not uniquely the product of "taxis" or "rationalist constructivism." Spontaneous order is a critically important

¹⁰⁴ See, for instance, Hamowy (1978) and Gray (1980).

¹⁰⁵ See Viner (1961, p.230).

concept, but we should not conclude that whatever has evolved and survived through spontaneous order is necessarily good. We should however be very suspicious of doctrines that have had their chances but do not seem to have survival properties – they probably violate underlying truths about human and social nature, much as the utopian communes of the 19th and 20th centuries did. I wish Hayek had started from a notion of historical sustainability, and then used his positive understanding of social systems, and yes a more directly utilitarian standard, to do some trimming at the edges and then present his understanding of the best achievable polity. (Tack on a rights constraint if you wish.) He didn't.

The Constitution of Liberty, and its successor volumes, are important landmarks in the history of political thinking, they offer many profound insights and distinctions, and everyone should read them. But they are not quite successes, and in the final analysis I do not feel they boost Hayek's claim to be GOAT. At the end of my research for this chapter, I came away feeling that I would not reread The Constitution of Liberty anytime soon.

Arguments against Hayek

There are a number of very serious and significant arguments against Hayek as GOAT, though perhaps they are not what you are expecting.

First, to set aside one set of false concerns, Hayek was not an advocate of laissez-faire. In The Road to Serfdom he wrote: "Probably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rough rules of thumb, above all the principles of laissez faire."¹⁰⁶ And Hayek's policy platform of the postwar era – which is the time he did his major writings on politics – supported government-sponsored health insurance, antitrust law, and

¹⁰⁶ Hayek (2007, [1944], p.71).

a welfare state. I read his agenda as being in broad accord with the FDP or “Free Democrats” of Germany, at least as they stood at that time. You may or may not like Hayek’s exact slant, but it hardly seems right to reject him for excess extremism.

Hayek’s most extreme piece of writing is arguably Denationalisation of Money, published by the Institute for Economic Affairs in 1976. On the surface, the piece is a call for laissez-faire, free banking, and currency competition, areas where few economists would favor a pure market solution. The title suggests as much. But on closer inspection, what Hayek is calling for does not seem so different from the 2023 status quo. It is true that many private currency alternatives, envisaged by Hayek as eventual winners of the current competition game, still are not allowed to exist, and in that sense currency competition remains imperfect. Nonetheless Hayek made it clear that government currencies might very well continue to exist, as indeed they have. We also have cryptocurrencies, which (so far, circa 2023) have not displaced dollars in our financial system, nor are they likely to do so, even under the assumption of complete regulatory forbearance. Furthermore, in most of the world’s advanced economies, it is possible to hold bank accounts in other currencies if you wish. As a United States citizen, I am free to hold a domestic bank account in terms of euros, or to use PayPal or fintech across borders. On top of all that, currency competition has ended up as a broader concept yet. There are many liquid private assets, often with high credit ratings, which provide liquidity for balance sheets or can be used for collateral. Many of them serve purposes with a high degree of “moneyness,” even if no one would call them currencies. In the international arena, there is vigorous competition across different currencies for transactions and invoicing purposes. Hayek’s pamphlet just doesn’t seem that crazy any more, whether or not it ever should have.

A second misconception about Hayek is that his macroeconomics and trade cycle theory was an inhumane “liquidationist” monstrosity. Those criticisms are longstanding, and Hayek at one

point did adhere to liquidationist doctrine, namely the view that bad businesses needed to be allowed to fail, and that the monetary authority should not intervene to help prop up aggregate demand. For instance, in Prices and Production he wrote that “And, if we pass from the moment of actual crisis to the situation in the following depression, it is still more difficult to see what lasting good effects can come from credit expansion. The thing which is needed to secure healthy conditions is the most speedy and complete adaptation possible of the structure of production to the proportion between the demand for consumers’ goods and the demand for producers’ goods as determined by voluntary saving and spending.”¹⁰⁷

For sure, that proclamation counts against Hayek, but his overall record was not nearly as bad as what you sometimes hear. Hayek’s first book on business cycles, Monetary Theory and the Trade Cycle, recommended a policy not too distant from nominal gdp targeting, a very popular idea today and not at all in line with liquidationism. At some point after 1933, Hayek renounced liquidationism altogether, and by his 1937 essay “The Gold Problem” Hayek was calling for active fiscal policy to combat the depression. His essays on trade cycle theory later in the 1930s also stress the notion that the ‘secondary deflation’ can be a large part of the problem. In his 1960 Constitution of Liberty he wrote: “Nobody will deny that economic stability and the prevention of major depressions depends in part on government action.” So liquidationism is a stage Hayek passed through once, and unfortunately, but most of his career he spent holding other and indeed opposing views. I say this is a ding, not a disqualifier.¹⁰⁸

Still, I am worried that the later Hayek seemed to have forgotten about the importance of demand-side factors in macroeconomics. In his recollections, when he is discussing Keynes’s

¹⁰⁷ See Hayek, Prices and Production. p.89. On Hayek’s policy views, see White (2008), and for a critical comment on that see Social Democracy for the 21st Century (2013).

¹⁰⁸ From The Constitution of Liberty, see Hayek (2011 [1960], p.380). For “The Gold Problem,” see Hayek (2000 [1937]).

Treatise on Money, he confesses his disappointment and notes: "...when I hoped I'd finally demolished the relation between aggregate demand and employment, it was taken up again." Whatever problems the Treatise may have, Hayek's account of his own role here is delusional and his rhetoric does not correspond to the history. Hayek had very good criticisms of the book, but hardly scored or even came close to the major victory against aggregate demand theories that he postulated. And I write this as someone who does not himself believe there is a stable Phillips curve relationship between inflation and employment of the sort postulated by many of the Keynesians.¹⁰⁹

A second and related claim is simply that Hayek's trade cycle theory from the late 1920s and 1930s is outright false, and furthermore convoluted and stupid. Early on Keynes described Hayek's Prices and Production as "...one of the most frightful muddles I have ever read..." though he noted it remained "a book of some interest." He continued: "It is an extraordinary example of how, starting with a mistake, a remorseless logician can end up in Bedlam." That reaction is understandable, but the notion of upward boom-based credit cycles, containing the seeds of their own later destruction, has survived into modern-day macroeconomics and indeed it has flourished, including in central banks. Try reading the papers of economic historian Alan M. Taylor, typically with Oscar Jordà and Moritz Schularick, who shows the importance of boom-bust credit cycles throughout economic history. Alternatively, consider Claudio Borio at the Bank of International Settlements, who has studied and written up the dangers of "excess financial elasticity," namely that will lead to excess and eventually self-reversing financial imbalances. Where Hayek did seem to go wrong was in thinking that the main problem was central bank distortion of interest rates, which of course are a market price signal. In the actual data, interest rates don't seem to drive investment that much, and furthermore central bank influence over the real rate of interest typically is limited. A lot of the problems seem to come

¹⁰⁹ See Hayek (1994, p.90).

from private sector bubbly behavior, driven by waves or moods of excess enthusiasm, often egged on by government policy.¹¹⁰

Furthermore, as I am writing in the first half of 2023, we seem to be entering a time when U.S. and European market participants had badly underestimated “duration risk,” or in other words they assumed very low interest rates would last forever. Tech companies have made major layoffs, tech company valuations (which typically are duration-intensive) have fallen dramatically, and several well-known banks have become insolvent, in large part because of interest rate risk. It remains to be seen how much this might snowball into a larger crisis, but it sure seems as if even the narrowest interpretation of Hayek’s words applies to the current day.

The general point is that Hayekian macro has proved at least somewhat robust. Economists such as Paul Krugman have attacked it and Hayek on ideological grounds, but the goal of researchers should be steelmanning, namely finding the most plausible version of an idea. In steelmanned form, and with some institutional modifications, Hayekian trade cycle theory is alive and well. I don’t view it as so important that it clinches his case for GOAT, but don’t be too swayed by the haters either. It represents a very real contribution.

Was Hayek right about planning?

Hayek’s Road to Serfdom wasn’t nearly as wrong as it might seem to many observers today. To be sure, countries such as Norway have built extensive social welfare states without moving any closer to totalitarianism, and arguably their social welfare states have helped to *preserve* their

¹¹⁰ For two examples of such work see Jordà, Schularick, and Taylor (2013) and Borio (2014), noting that these approaches tie Hayek into the speculative boom-bust tradition of Hyman Minsky as well. The lead Keynes quotation is from Keynes (1931, p.394).

political freedom. In that sense, yes, Hayek is wrong. But Hayek needs to be read in the context of when he wrote the book.

Hayek was responding to a number of British authors of his time, such as Harold Laski, who were advocating wholesale nationalization of the British economy. Keynes, in his General Theory, had advocated a nationalization of investment, and arguably as his main and most important policy conclusion. We'll never know, but perhaps those interventions on a broad scale would have led to a loss of political liberty in Britain and elsewhere. That may or may not be correct, but it is not a crazy or obviously refuted view. Britain performed some partial nationalization in the years after the Second World War, it ended up working out badly in economic terms, and the Thatcher regime found it necessary to reverse many of those steps, to the benefit of both British liberty and prosperity.

Hayek himself clarified this point when he redid a new preface to the book in 1956. He stated that he feared that England would experiment with “hot socialism” and full nationalization after the war, and that those policies would indeed lead to very bad political consequences.¹¹¹

We also need to consider the date of Road to Serfdom. It was published in 1944, during the Second World War, and the genesis of the ideas came from an earlier and less glorious looking part of the conflict. Even when the war ended with the Allies victorious, how many full-fledged democracies were there in the world? Britain, the U.S., Canada, Switzerland, Australia, and New Zealand? How many others could you argue for? And the most powerful of the Allied nations, in military terms, had been Stalin's Soviet Union. Surely a dollop of pessimism at the time was not so inappropriate, even if subsequent events did (mostly) unfold in very positive directions.

¹¹¹ See Caldwell (2020, p.743), and this piece also offers very good general background on Hayek's argument in the book.

If we are going to pick on Hayek, and look for flaws in his contributions, we might ask whether he was in fact entirely correct about central planning. No, I'm not going to defend communism, in either its theory or its practice, but is Hayek's explanation the correct one for why communism failed? Here the case for Hayek is weaker than many people imagine.

Obviously Hayek was correct about central planning in its most extreme forms, but socialists such as Oskar Lange countered with the idea of market socialism. Lange argued that the government should own the means of production, but hire managers and instruct them to compete with each other and to set price equal to marginal cost. Such a system was supposed to bring the distributional advantages of socialism, while countering monopoly problems and ensuring the benefits of competition, yet without allowing capitalism to rule all of society.

Hayek responded by writing two lengthy critiques of Lange, since republished in the book Individualism and Economic Order. He argued that simulated competition was a fantasy, and that for competition to work there had to be prospects of real profit and loss, and of bankruptcy. Furthermore, Hayek saw markets as capable of discovering changes, such as innovations, that stood outside the planners' frame of reference and could disrupt their "set price equal to marginal cost" instructions. Most of all, he thought that constructing Langean competition would require exactly those kinds of knowledge that we needed the competitive process to generate. Hayek thus thought that market socialism begged the question and it was not a real alternative. Subsequent experiments with market socialism, in places such as Yugoslavia, seemed to confirm Hayek's points. Market socialism worked better than dogmatic central planning, but the world was not rushing to copy it and mostly it was a failure. Most of the world thus thought that Hayek won this part of his debate with the socialists.

Circa the 2020s, the answer is no longer entirely clear. Yes, market socialism does usually fail, but our understanding of *why* it fails has changed radically.

Let's consider a simple counterexample, namely the Singaporean health care system. Most of the hospitals in Singapore are government-owned (a few are private, but also smaller), and they are told to compete with each other. They do. The system seems to work well, and the competition across the hospitals keeps down health care costs, which in Singapore have run in the range of about four percent of GDP, an astonishingly low sum (compare to America's eighteen percent or so, or more typically a wealthy country might be spending ten or so percent of GDP on health care). Furthermore, by all available markers the Singaporean health care system would appear to be of very high quality. In short, it seems to be an example of successful simulated competition, combined with government ownership.

To be sure, there are many good arguments why the Singapore example is a special case. Singapore is a small nation, the Singaporean bureaucracy and civil service is of exemplary quality, Chinese cultural health care norms put less burden on hospitals, and more. Still, *those are not Hayek's arguments*. Hayek argues that such simulated competition should prove infeasible *per se*, for reasons that are grounded in the nature of knowledge and competition itself. Those are certainly still relevant factors, but Hayek overstated his case against Lange's method, which it seems can work at least once.

Singapore clearly is a cherry-picked example, but such cherry-picking should not be possible if you buy into the strongest form of Hayek's argument. If you wish to look further into simulated competition, consider the numerous Chinese state-owned enterprises, which comprise most of China's largest firms. They are owned by the government, and they are (mostly, not always) told to compete on normal commercial terms. The managers do better and earn more if the firms do

better. These companies are not the smooth and obvious success of the Singaporean hospital system, and they vary greatly in terms of their outcomes and their relative productivities have fallen with the passage of time, compared to the Chinese private sector. Still, they have been a dominant feature of the Chinese economy during a period when China was arguably the leading economic growth miracle the world has ever seen.

The Chinese SOEs are by no means Lange's exact recipe, and many of them seek monopoly power rather than setting price equal to marginal cost, or perhaps they behave as oligopolies. But they do simulate competition in some manner, and their continuing prominence suggests Hayek's model of market socialism was not sufficiently sophisticated, and it focused too much on knowledge problems and perhaps not enough on corruption and incentive and firm governance problems. We're seeing a lot of cases of simulated competition these days, with varying degrees of success, but, once you study the cross-sectional variation, it is far from obvious that knowledge problems are the main issues behind the failures. In other words, Hayek on market socialism may, these days, have turned out to be somewhat overrated.

Chips off the workbench

Hayek has many creations, and it would be easy to write an entire book about his "minor" contributions. And given how much he wrote, and how widely the topics spanned, it can be hard to know which are essential works and which are the chips. For instance, when he wrote it Hayek seemed to think that his 1941 The Pure Theory of Capital was a major work, but later he became disillusioned with the book and its lack of impact, and today most Hayek scholars would consider it to be a mere chip. The rest of the world ignores it altogether, and doesn't even see it as a chip. The task is further complicated by how many of the smaller or apparently less

important pieces are part of a broader social and philosophical view of how much understanding the nature of decentralized knowledge changes our understanding of just about everything.

Some of my favorite Hayekian “chips” would include his survey piece of the doctrine of “forced saving,” which is a tour de force of classical monetary theory, showing how consistently many of the classical economists thought about the effects of monetary inflation on savings and investment. His essay “Individualism: True and False” makes a case for the epistemically more modest British liberal tradition over the more systematizing French rationalists. This strand of Hayek’s writing revolutionizes how one views the history of liberalism, even if one is not entirely persuaded by his account of the defects of French rationalism. Hayek’s 1966 lecture on Mandeville drives many of these points home and draws out some of the subtleties in Mandeville’s thought and maxim of “private vices, public virtues.” “Price Expectations, Monetary Disturbances and Malinvestment” is a subtle treatment, well ahead of its time, of how expectations may shape the evolution of a monetary trade cycle. As you can see, most of my personal favorite chips from Hayek are from the history of economic thought.¹¹²

A strength of Hayek is that the chips from the workbench are hardly ever mere chips. He is taking a basic insight about the nature of knowledge, and stretching it into a theory of virtually everything by the mobilization of many different arguments and examples from many different areas of social scientific investigation. Therein lies both the strength and potential weakness of Hayek as a contributor. Virtually everyone agrees about the importance of Hayek’s core contributions to economics. Hardly *anyone* agrees about how much the basic insights can be stretched to understand politics, the method of the social sciences, the history of ideas, and cognitive science, among other areas. As a general rule of thumb, the people who might

¹¹² For these, see Hayek (1932), Hayek (1933), and Hayek (1966).

nominate Hayek for GOAT typically have a very positive view of the broader applicability of Hayek's insights, above and beyond the applications to decentralized market price mechanisms.

I consider Hayek's book The Sensory Order, Hayek's treatment of the psychology of perception, to be a significant chip for assessing Hayek, reflecting many of his strengths and weaknesses. The book has many merits. It comes across as profound because it is profound. It has a central European, early twentieth century weightiness that these days is hard to find. It presents the problem of perception as another example of Hayek's basic insights about decentralized systems and also rules, and it thus was a very early example of seeing connections that became more commonly noticed only later. It was well in advance of Gerald Edelman's neural Darwinism and Henry Plotkin's evolutionary epistemology, presaging them both. On a more popular level, if you enjoy the books of Marvin Minsky and Kevin Kelly, you will recognize the prescience of Hayek in this topic area.

Within the field of psychology proper, it was an attack on both behaviorism and physicalism, largely vindicated by the later evolution of the field. It takes cortical memory networks seriously and at least began to tie them into broader ideas about self-organizing systems from the social sciences. Hayek portrayed the mind as a series of connections, a self-organizing network based on rules that enabled the creation of a whole far smarter and more able than any of the constituent parts, much like an advanced economy.¹¹³

Hayek, in a 1948 letter to historian John Nef, referred to The Sensory Order as "the most important thing I have yet done." Amongst Hayekians, it has kept its status as a mysterious

¹¹³ On these points, see Steele (2002).

profundity that one can cite without understanding, to point out just how deep Hayek really was.¹¹⁴

Yet the book has many weaknesses. It shows throughout that Hayek had no formal training in the area he is writing about. To be clear, Hayek was remarkably talented, and in economics also did not have what we might today consider satisfactory training, so that criticism is not as devastating as you might think. Still, Hayek did not do a good job of situating his claims about the mind in the broader literature, or of presenting his precursors, or even of clarifying the broader picture he was painting. He was not able to outline which empirical predictions his theory would entail, or what might lead us to reject the theory. Most of Hayek's books were poorly organized, and this one was no exception.

Some of those problems stem from the genesis of The Sensory Order. The book actually was mostly sketched out in the 1920s, when it would have been more current. At that time it was based on a few weeks in 1919-1920 when he worked in the Zurich laboratory of a well-known brain anatomist named Constantin von Monakow, who himself favored the idea of the brain as a coordinating and self-organizing system. But Hayek's work with him represented only a very partial exposure to the underlying scientific questions and method of the neuroscience field. The book was set in a world where Viennese logical positivism, Gestalt psychology, and the psychophysics of Ernst Mach still reigned.¹¹⁵

It was not published until 1952, in part because Hayek felt stung by the criticisms that Road to Serfdom was too popular a book and insufficiently academic, and he wished to restore his chops as an academic heavy hitter. It is understandable that Hayek wanted the work to appear, but still

¹¹⁴ See Caldwell (2004, p.239).

¹¹⁵ For background on the book, see Steele (2002) and Fuster (2011).

it showed the judgment of a man who thought his commentary on a different field, decades later, still would be important. He was right! Nonetheless, at some fundamental level Hayek didn't quite know what he was talking about, and in part he succeeded with it because his ego won out over what normally might be called "better judgment." Hayek wrote as if he had direct insight into how minds work, at the expense of the empirical and at the expense of a skeptical perspective on his own contribution. Maybe the book is better that way – do you wish to go back and read him qualifying all of those sentences and claims? – but still that history gives much of the book a kind of free-floating quality and not always for the better.

With The Sensory Order you can see three key elements that got Hayek as far as he came: a strong belief in the "Anglo" spontaneous order ideas of Adam Smith and David Hume, central European profundity, and massive ego, all rolled up into the same human being and the same body of work.

Do we need to cancel Hayek?

Hayek did visit Pinochet's Chile twice, he evinced his admiration for Pinochet's economic policies, and arguably he allowed himself to be used as "cover" and positive publicity by the Pinochet regime. His overall stance can be construed as some mix of mistaken and naive, but I've seen numerous contemporary American academics visit China under more or less the same terms. Nobel laureate Joseph Stiglitz has been a close advisor to China, but you don't hear much about that, perhaps because Stiglitz is vocally left-wing. So mostly I view this as differential treatment meted out to Hayek (and Pinochet) because they are associated with the political right. It is hardly the case that Hayek was an architect of the Chilean reforms, and furthermore many of

the purely economic reforms were growth-enhancing. Overall, I take people complaining about this visit as a negative signal of their intelligence and objectivity.¹¹⁶

Hayek did try to send Pinochet a chapter from his Law, Legislation, and Liberty on ideal constitutions. Good! I would gladly send a chapter of one of my books to Uncle Xi, if only I had the opportunity. This chapter-sending episode, by the way, addresses the question I asked about both Friedman and Keynes with respect to the particular advice they gave to India. It is hard to imagine Hayek engaging in a comparable exercise, but easy enough to imagine him sending around his abstract tomes, as indeed he did to Pinochet. You are free to consider that either a plus or a minus.

That all said, Hayek did make a fool out of himself with one statement in particular, from a published letter. Here goes:

“I have not been able to find a single person even in much maligned Chile who did not agree that personal freedom was much greater under Pinochet than it had been under Allende.”¹¹⁷

Exactly what kind of searching did Hayek do? I would say this reflects his moral blindness, and his inability to see that the people hosting him and toasting his status were only one particular layer of Chilean public opinion, and furthermore that many other Chileans felt oppressed by the risk of punishment for contrary opinions. It is a sign that Hayek was not so great at seeing the viewpoints of other people, and that (political moralizing aside) also should count as a weakness of him as an economist and social scientist. It would have been more defensible, for the positive case of Hayek as a social scientist, if he had written: “I met and talked with some socialist

¹¹⁶ On this whole visit, see Caldwell and Montes (2014).

¹¹⁷ Caldwell and Montes (2014, p.27).

Allende defenders, and suspected that many more were afraid to speak up. These people genuinely and correctly feared that their liberties and perhaps their lives were at risk. After careful consideration, I rejected the trade-offs they were laying out, and this reaffirmed my view that Chile was right to take the tough course it did.” But no, he failed that test of understanding.

In his letters and public pronouncements, Hayek considered democracy and dictatorship a number of times, and here is an illustrative comment:

“I have certainly never contended that generally authoritarian governments are more likely to secure individual liberty than democratic ones, but rather the contrary. This does not mean, however, that in some historical circumstances personal liberty may not have been better protected under an authoritarian than democratic government.”¹¹⁸

Hayek also stressed the following point:

“But when I refer to this dictatorial power, I am only talking for a transitional period. As a means for establishing a stable democracy and liberty, free of impurities.”¹¹⁹

That’s fine enough, but overall I feel Hayek was in an epistemic fog in Chile and one which does reflect negatively on his perspicacity as a social scientist.

What about other reasons for cancellation?

¹¹⁸ Caldwell and Montes (2014, p.27).

¹¹⁹ Caldwell and Montes (2014, p.45).

On anti-Semitism, Hayek made a number of arguably pro-Semitic remarks, such as praising the “Jewish intelligentsia of Vienna,” but still this is no longer considered an appropriate mode of discourse and furthermore it is not always a sign of philosemitism. Hayek did make some inappropriate remarks, such as referring to the different categories of Viennese Jew, blaming the problems of Vienna on “very primitive, poor Polish Jews,” and describing that group with “cap on and long beards.” Hayek also researched his own background extensively, and found no Jewish ancestors. I read Hayek as more class-obsessed than anti-Semitic, and very much a product of his times. At the very least he seemed to be less anti-Semitic than was Keynes, but he also was not exactly where you might have wanted him to be.¹²⁰

The biggest black mark against Hayek is probably the 2006 memoir written by his personal assistant, Charlotte E. Cubitt, covering Hayek’s declining years and starting in 1977. She was closely involved in all matters of Hayek’s work, including both his financial affairs and the content of The Fatal Conceit. Her salary was paid by the Cato Institute, and she wrote the kind of memoir that only an assistant and close friend of Hayek’s wife could have written. For instance, it detailed Hayek’s medical problems and growing deafness, the indecipherability of the handwriting of Hayek’s wife, his dislike of being called “Fritz,” his regrets that his mother had converted to Nazism, considerable material on how Hayek talked about the transition from his first marriage to his second, and many other detailed matters, all scattered across a glorious, no holds barred, never stop to pause 394 pages. There is even talk of bedpans, and also seemingly endless publication details about The Fatal Conceit, and to what extent it was truly Hayek’s work, as opposed to the interventions of William Bartley, who was working with Hayek on the project. The woman’s memory appears to be remarkable, and furthermore she is perpetually aware of her own growing indispensability in the lives of Mr. and Mrs. Hayek.

¹²⁰ On Hayek and his various remarks about Jews, see Reder (2000) and also Hayek (1994, p.61).

Although Hayek is extremely famous and has given rise to an extensive secondary literature, this book is hard to find and it was self-published in the United Kingdom. Interlibrary loan did not work for me, I could find no trace of it on-line (it appeared and then rapidly disappeared on a Russian website), and I obtained a copy only because I knew a Hayek scholar who had one, a literal samizdat edition.

As you read on in the text, it is easy to see why the memoir is such an awkward matter. Hayek was supposed to be the classical liberal acceptable to the establishment, in contrast to the dogmatic Ludwig Mises. Yet Cubitt presented Hayek as making rude remarks about blacks (p.23, Thomas Sowell was an exception), as disliking Jews (p.51), finding warfare downright exciting (pp.47, 76), as admiring few women (p.76), and in general of being an old-fashioned, Viennese grump, pompous horse's ass. (She seems to most dislike the negative comments about women.) To be fair, the material on prejudice is quite limited, and those issues hardly seemed to be Hayek's obsession, but still this is overall a disturbing portrait. The war-related bloodlust seems very real and somewhat central to his broader worldview.¹²¹

To be clear, there is no other confirmation of any of this, save for this one memoir, penned by a disgruntled assistant. And it is not a book that other Hayek scholars cite very much, even though it is a major biographical take of the man, based on direct, first-hand experience. Make of that what you will.

Do I believe the more damning segments of this memoir? I guess I do, if only because the level of detail is so impressive. And many parts of the book, such as Hayek's account of why he never

¹²¹ There is plenty more gossip in this book, about other people, the context for it to me not always being intelligible. Had you known that the Moonies (yes, the Unification Church) presented an award to Hayek at the Colombi Hotel in Freiburg? (pp.181, 203, passim).

reviewed Keynes's General Theory, match up with other sources. Am I convinced it, including the most scandalous bits, is all true? Absolutely not. Cubitt comes off as both obsessive and as somewhat "off," and she clearly resents what comes across as the claustrophobic nature of the Hayek family. She and Mrs. Hayek eventually become bitter enemies, and Charlotte Cubitt becomes burnt out in Hayek's final year, when he was experiencing hallucinations. Still, my best guess is that Hayek became a conservative, cranky, politically incorrect old man, placing some initial Viennese intellectual prejudices into the larger canvas of the modern world, and then magnifying and intensifying them with age. In other words, there is a reasonable chance that this is one of the most open and honest books about an economist you ever will read, a tale of decline from a very close inside source.

As a talent in the abstract sense of that term, I see Hayek as a morose loner with relatively few friends and a fair amount of bitterness. Those feelings kept him going over the years, and motivated him to refine and develop his arguments. He always felt he had something to prove and he did not lose steam until the very end. Nonetheless those same feelings probably led him into resentment. When Hayek was at his peak, he combined Austro-German and Continental insights with the best of British thought and the Scottish Enlightenment, a synthesis that few people were able to achieve. He was able to bridge those differing intellectual cultures in a spectacular manner. But over time, that blend became less fresh in his mind and in his work, and the battles took over. Hayek was never at his best as a fighter, as for instance he lost the debates with Keynes and never recovered from that episode as a macroeconomist. So as the battles assumed a larger importance in his mind, the intellectual scope of his work became narrower, even as he covered broader and broader topics. He did incorporate plenty of new ideas over time, such as complexity theory, but somehow he was not able to climb out of the intellectual boxes he had constructed. His later decline can perhaps be understood in that framework.¹²²

¹²² See Caldwell and Klausinger (2022, *passim*) and on friendship in particular see James (2022).

What else did Hayek do?

Unlike Friedman and Keynes, Hayek was not a major builder for his home institution. He was a part of the famed Vienna circle of Austrian economists, but Mises was much more the driving force on the organizational and also the intellectual end. Hayek admits he learned more from Mises than anyone else. Given Mises's seniority, presumably that is not Hayek's "fault," but still later in his career it doesn't seem he did much to build up programs. He was a member of the University of Chicago Committee on Social Thought in much of his postwar American stint, but one does not hear much about a building role, nor are there indications of such from Hayek's later time at Albert-Ludwigs university in Freiburg or from his few years at the University of Salzburg.¹²³

In the 1960s, Hayek did attempt to build up a new intellectual center at the University of Vienna, to be called Institute of Advance Human Studies, to be focused around himself, Karl Popper, and Sir Ernst Gombrich. Yet the University itself resisted this idea, and the Ford Foundation, rather than sponsoring Hayek's program, decided to set up its own center.¹²⁴

Hayek did have a major role in the origins and build-out of the Mont Pelerin Society, the association of classical liberal thinkers determined to keep alive ideals of liberty after World War II. Hayek presents the Society as his idea, realized by the organizational skills of a Dr. Albert Hunold of Zurich. He served as president of the Society for the first twelve years and lent it credibility and allowed it to turn into the most visible and focal defender of classical liberal

¹²³ The definitive biographical reference on the first half of Hayek's career is Caldwell and Klausinger (2022). It has informed virtually every part of this chapter.

¹²⁴ See Hayek (1994, p.29).

ideas. Even that history, though, presents Hayek as more of an ideas guy and less of an institution builder per se. Hayek noted also that he sat a few times on government commissions, and had little taste for the work, and he criticized Lionel Robbins and Keynes for having become, in his words, “statesmen.” As you might expect, some of Hayek’s biggest fans would view that distaste for politics as supporting his case for GOAT.¹²⁵

Hayek it seems behaved like a gentleman in his scholarly career, and in his writings he made a point of assuming the best motives of his intellectual opponents. Along those lines, Hayek became very good friends with Keynes, especially as World War II approached. LSE was evacuated to Cambridge for reasons of safety, and Keynes helped Hayek procure a room in King’s College. Keynes and Hayek became extremely friendly, and Hayek also noted his close relationship with Keynes’s wife. Hayek spoke fondly of Keynes regaling high table with his tales of Elizabethan book collecting, and also how Keynes would pass along to him his copies of Journal of the History of Ideas, once he was done with them.¹²⁶

Hayek’s remarks about his early intellectual development show the breadth of his interests. He said that he was obviously talented, but lazy, and his teachers were frustrated with him. Mainly biology interested him. He did become very familiar with Homer, and was able to read Homer in the original Greek. His first scientific interest was, taking after his father, in botany (his father was a doctor but with a passion for botany). He helped his father’s botanical explorations as both a collector and a photographer, and he started his own herbarium. Eventually his interests turned to paleontology and evolutionary biology, but by the age of sixteen he was fascinated by studying human beings, and then he studied theater and drama. By 1917, at the age of eighteen,

¹²⁵ See Hayek (1994, pp.132-133, p.95 on Robbins and Keynes).

¹²⁶ Caldwell (1998, p.556). On Hayek’s account of the friendship with Keynes, see Hayek (1994, p.91).

he was sent to fight in World War I, at the Italian front, later contracting the Spanish flu and malaria during his years of service.¹²⁷

Hayek's first exposure to economics came at the age of seventeen, when a teacher explained to him how Aristotle carved up ethics into morals, politics, and economics. He tried reading some philosophy and was bored by the books of the German materialist Ludwig Feuerbach. At that point he started reading some socialist pamphlets, but his real interest was stimulated by his time in World War I and seeing what a mess the nationalities problem was, as that drew his attention to matters of political organization. It all started to fall together for him when, during the war, he found and read a copy of Carl Menger's Principles of Economics, Menger being the founder of the Austrian School of Economics.¹²⁸

Hayek studied economics in conjunction with law in Vienna. In the 1920s he spent some time in the United States, and he registered to study for a doctoral degree at NYU, with the planned title of "Is the function of money consistent with an artificial stabilization of purchasing power?" He studied monetary policy, but returned to Vienna where he pursued that as his main research interest, with important German-language publications in economics coming in 1928.¹²⁹

Hayek was quite an avid rare book collector, most of all in the history of economic thought, and his knowledge of that field was impressive. He also loved mountaineering and skiing, hardly unusual for an Austrian. In his old age, however, he regretted not having more hobbies.¹³⁰

¹²⁷ See Hayek (1994, pp.42-48). Most of all, see Caldwell and Klausinger (2022).

¹²⁸ Hayek (1994, pp.46-49).

¹²⁹ See Hayek (1994, pp.8-9).

¹³⁰ Hayek (1994, p.136).

Hayek's self-account emphasizes his depression, including a severe depression that plagued him for a year in 1960, and a later two-year episode of depression in 1972. Reading Hayek about himself is a little sad, though obviously the recipe worked:

“I have often been acutely aware of the fact that – I believe, more than most other people – my thought was directed wholly to the future. I seem very early to have lost the capacity quietly to enjoy the present, and what made life interesting to me were my plans for the future – satisfaction consisted largely in having done what I had planned to do, and mortification mainly that I had not carried out my plans. As I was not overambitious, and did not overestimate my capacities, I usually succeeded, and was during most of my life fairly content, at least so long as I had any definite tasks to do.”¹³¹

My personal connection with Hayek

I met Hayek once in my life, and stalked him a bit later on.

In the early 1980s Hayek was visiting the United States, and he was slated to give a talk at George Mason University. I was doing graduate study at Harvard at the time, but thought it was worthwhile to fly down to Virginia for this (why wasn't Hayek invited to speak at Harvard? C'mon, you don't already know the answer to that question!?). And so I arrived and yes Hayek was there.

Most of all I was surprised by how tall he was, and how he stooped when he walked. I also noticed his strange Viennese-British-sing-song accent, which at the time was new to me.

¹³¹ See Hayek (1994, p.130 on the depression and p.138 for the quotation).

The talk was very impressive along one particular dimension. Every time Hayek uttered a sentence, you had the feeling he was saying something remarkably profound. You might say that he reeked of profundity. And in fact a lot of it *was* profound. Rather than speaking about political philosophy, or denationalization of money, as people expected at the time, Hayek dug deeply into the toolbox and covered the topics of money and capital, as you might have heard from him in the years leading up to his 1941 book The Pure Theory of Capital.

But it was somehow all profundity and no movement forward on the substance. Hayek repeated a lot of the points he made about capital theory in the 1930s and 1940s, but he didn't do much to revise or improve his earlier point of view. I recall asking him a question (I can't remember exactly what it was), and Hayek saying in response that he was planning to write a sequel volume to his 1941 Pure Theory of Capital. But whereas Pure Theory of Capital had dealt with capital in a "real" (non-monetary) setting, the next book would integrate the theories of money and capital in a way that he had failed to follow up on in the 1940s. In essence, he wished to revisit and also reverse the greatest failure of his career.

I went away thinking he was arrogant and delusional, and didn't have much understanding for how much economics he had missed since the 1940s. Still, I enjoyed the talk and the chance to see Hayek. And, along the way, I learned something about profundity.

My next instance of "contact" with Hayek was actually a complete absence of contact. During the course of my graduate study in economics, I decided to spend the 1985-1986 year living in Germany, Freiburg in particular. At the exact same time, Hayek also lived in Freiburg, though that was a complete coincidence. I didn't actually have such a strong desire to visit him, though I suppose I would have paid my homage, if the opportunity had arisen. So many people asked me:

“Ah, you are in Freiburg. You must be there to see Hayek!” Nope. I was there because the university accepted me for a year, because not too many of the natives there spoke English at the time, because it has arguably the best weather and best food in Germany, and it is right near the French and Swiss borders. Still, I had to field all of those queries about Hayek, as if I were on some kind of pilgrimage.

It turned out that Hayek lived not too far from my dorm room, and that was already a common direction for my habitual walks. So, after learning of his address, a few times I walked past his home, wondering perhaps if I might repeat my Haberler stalking experience (see the introductory chapter) and catch him in the window, head hung, sipping something from a spoon. Alas not. No signs of life from anyone, much less Hayek, no nurse coming and going either. That was just as fine by me.

And when I left Freiburg to return to live in the United States, I knew I had no realistic chance of ever seeing Hayek again.

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CHAPTER 5

Those who did not make the short list: Marshall, Samuelson, Arrow, Becker, and Schumpeter

So who doesn't make the cut? My "almost made the short list list" is Paul Samuelson, Kenneth Arrow, Gary Becker, Joseph Schumpeter, and Alfred Marshall. Let's consider each in turn.

Paul Samuelson

Paul Samuelson (1915-2009) was a contemporary of Milton Friedman's, and during their respective times Samuelson probably was considered the greater and more important economist.

Samuelson was truly brilliant, and he changed the entire profession, mostly by making it more mathematical and more concerned with building models. He was very much an economic prodigy, having published fourteen articles by his 24th year, many of them important, and at that time he was still two years away from finishing his Ph.D.¹³²

Still, I cannot in good conscience put Samuelson on the short list for GOAT. His main problem is that, while he was a great economist of high import, he did not in fact *understand economics*. I am sorry to report that, but yes it is true and it is also a deal-breaker.

Exhibit A is how Samuelson's textbook presented Soviet economic growth. In the fifth through eleventh editions of the text, starting in 1961, the book stated that the Soviets had higher growth rates and presented a graph showing them catching up and indeed surpassing living standards in the United States, over the course of somewhere between 23 and 36 years. In the twelfth edition it was stated that the Soviet economy grew an average of 4.9 percent between 1928 and 1983. For the 1989 thirteenth edition, co-authored with William Nordhaus, it was written: "the Soviet economy is proof that, contrary to what many skeptics had earlier believed, a socialist command economy can function and even thrive."¹³³

It took until the fifteenth edition in 1995 for Samuelson and Nordhaus to declare the Soviet experiment "the failed model." Still, the damage had been done. Only someone who had failed to understand one of the two or three most important lessons in economics could be led down such a mistaken path.

¹³² On Samuelson as prodigy, see McCallum (2016, p.66).

¹³³ See Skousen (1997, p.148), and more generally Levy and Peart (2011) on the texts of the period.

To be clear, I am well aware of the empirical literature on Soviet postwar economic growth, and for a long time it wasn't as bad as many anti-communists might think or might have thought. Probably none of the data are trustworthy, but still in the postwar era Soviet citizens experienced mostly rising living standards, most of all when it came to residences. Massive urbanization drove much of that growth, and the trend continued up until the oil price collapse of the early 1980s. That said, the economic *consumption* of Soviet citizens showed few signs of significantly catching up to the West, and it has not been seriously suggested otherwise, including by my (formerly) Soviet wife and in-laws, not to mention the more formal literatures. The Soviet system just wasn't good at producing the stuff people actually want, known to economists as "consumer goods."

But most importantly, if you are thinking what you need to teach undergraduates about economics in the postwar era, it is not "the Soviet Union will catch up to the United States." If Samuelson had put forward a sophisticated message of "their catch-up growth, urbanization, and postwar rebuilding will make their growth performance look decent for a while," that would have been a reasonable message. But no, he insisted on turning Soviet performance into a point about comparative economic systems, and on that whole matter he failed his text users very badly. It goes without saying that he did not present Hayek's critique of socialism, or the analysis of incentives that Milton Friedman might have offered. His understanding of this all-important topic was not nearly as good as what you would have found in a Reader's Digest article from the same era.

To be clear, these grievous mistakes do not take away from Samuelson's import or contributions, but they do diminish his personal greatness and they do knock him out of the ballpark for GOAT. He did not understand either Soviet-style planning or for that matter markets, and those are two huge strikes against him.

Part of me thought I was being too harsh on Samuelson here, so I thought I should look at some of his other writings on “ordinary economics.” It wasn’t pretty, and overall it confirmed my negative impressions of his economic understanding.

For instance, during the early 1970s there was a debate about President Nixon’s 1971 wage and price controls. There is some disagreement about the actual stance of Samuelson, but I don’t think his takes have held up very well. *The Los Angeles Times* for instance reported Samuelson opining as follows: “With the wage and price controls, he assured a more rapid short-term economic recovery, and made it absolutely certain he would be the overwhelming victor in the 1972 election.” Maybe that is not quite a full endorsement of the controls, but consider his remarks on the August 17, 1971 ABC Evening News: “I don’t think that a ninety-day freeze is going to solve the problem of inflation. But it’s a first move toward some kind of an incomes policy. Benign neglect did not work. It’s time the president used his leadership... We’re better off this Monday morning than we were last Friday. Friday was an untenable situation.”¹³⁴

Furthermore, Samuelson, writing with Solow in 1960, had laid out wage and price controls as an appropriate tool for fighting inflation. Do you know what my take would have been?: “The wage and price controls are neither good microeconomic nor good macroeconomic policy.” Samuelson did not come anywhere close to uttering such words. In October 1971, Samuelson argued that Nixon’s NEP [New Economic Policy], which included both severing the tie of the dollar to gold

¹³⁴ For *The Los Angeles Times*, see Hiltzi (1994), and also see Questions and Answers: Paul A. Samuelson, " *Newsweek*, October 4, 1971. For the ABC News remarks, see Nelson (2020, volume 2, p.267).

and wage and price controls, was “necessary,” and that the wage and price controls were working better than might have been expected.¹³⁵

In October 1971, Samuelson argued that the Fed should continue to let the money supply grow, to stave off the risk of a liquidity crisis occasioned by excess involvement in the Vietnam War. He said he favored presidential “guideposts” to lower the rate of price inflation from four to three percent, but didn’t favor explicit wage and price controls because it wasn’t enough of an “emergency” situation. That is the extent of his opposition to wage and price controls – lukewarm at best, not objecting in principle, contradicting his earlier stances, and showing a poor understanding of monetary economics more broadly. You don’t have to be a dogmatic monetarist to realize that continued money supply growth, in an expansionary period, combined with presidential “guideposts” to lower rates of price inflation, was simply a bad answer and an incorrect view. In a 1974 piece, Samuelson continued to insist, as he had argued in the past, that the inflation of that era was cost-push inflation, and not driven by the money supply. He also asserted (without evidence) that full employment and price stability were incompatible. In one 1971 piece he made the remarkable assertion that: “...with our population and productivity growing, it takes more than a 4 per cent rate of real growth just to hold unemployment constant at a high level.” In other words, his basic model was just flat out wrong. More generally, the Samuelson *Newsweek* columns of that era just aren’t impressive, as they make repeated, dogmatic, and arbitrary stabs at forecasting macroeconomic variables without much humility or soundness in the underlying model.¹³⁶

¹³⁵ See Questions and Answers: Paul A. Samuelson," *Newsweek*, October 4, 1971. And see Samuelson and Solow (1960).

¹³⁶ See Paul Samuelson, "Coping with Stagflation" *Newsweek*, August 19, 1974, and for the 1971 remarks see "How the Slump Looks to Three Experts" *Newsweek*, Oct.18, 1971. On the four percent claim, see Paul A. Samuelson, "Nixon Economics," *Newsweek*, August 2, 1971. For the case that Samuelson did not favor Nixon’s wage and price controls, see Wapshott (2021, p.152),

If it makes you feel better, other Keynesian economists who endorsed Nixon's wage and price controls include Arthur Burns, John Kenneth Galbraith, James Tobin, Walter Heller, Arthur Okun, and Gardner Ackley. The problem was that these individuals saw some form of a wage-price spiral as the problem, instead of correctly looking to monetary policy as the culprit. Keynesian economists, or rather the vintage of that era, just didn't understand a lot of basic macroeconomics. The Volcker disinflation disproved their entire basic worldview on this issue, as only a tighter monetary policy broke the higher rates of price inflation from the 1970s. It wasn't about a wage-price spiral at all.¹³⁷

Next I turned to a 1947 policy memo that Samuelson wrote with Alvin Hansen, for the postwar planning of the United States government, titled "Economic Analysis of Guaranteed Wages." The main argument of the piece is that the United States should consider schemes for guaranteed wages throughout the entire economy, mostly to limit the chances of a postwar depression. Hansen and Samuelson do offer various criticisms of the guaranteed wage idea, but mostly falling into the "this idea doesn't go far enough" category. There is no understanding of the political economy incentive critiques that might be offered by Milton Friedman, or of the informational critiques that could come from Hayek. Samuelson gets docked here, not for coming up with a bad idea (though it is very bad), but for not understanding or responding to its most fundamental limitations. And those limitations correspond exactly to Samuelson's fallacious view of Soviet planning. There is plenty of "hydraulic Keynesianism" in the piece, but

who I think is stretching the notion of "favor." Samuelson was on board with the basic logic, though he was reluctant to provide outright, literal full support.

¹³⁷ On the broader Keynesian opinions, see Nelson (2020, vol.II, p.267).

very little understanding of actual microeconomics or political economy. And no, this wasn't a super-shortened memo of two or three pages, it ran a full sixty-six pages.

Samuelson's achievements are extraordinary nonetheless. One category of his papers consists of taking the best ideas from the previous literature and turning them into simple and elegant mathematical models. For instance, Samuelson took the public goods theory of Erik Lindahl and others, and derived the first-order optimum conditions for society and he compared those conditions to what markets would produce. Similarly, Samuelson took earlier claims that free and frictionless international trade would equalize factor prices across borders, and framed that argument in terms of a simple and easy to use model. Methodologically, Samuelson was a major proponent of mathematics in economics, but he also stressed that a model should be made as simple as possible. Paul Krugman later referred to the notion of building "toy models" as coming out of the MIT tradition, and Samuelson was the foremost practitioner of this.¹³⁸

Samuelson's papers remain fun reading to this day. He had a razor-sharp wit, came right to the point, and did not suffer fools gladly. On the downside, he was dogmatic and he considered the Chicago School an enemy of sorts, rather than a set of people to learn from. Was Jora Minasian, because of his defense of market-supplied cable television, really a "bigoted devotee of *laissez-faire*", as Samuelson alleged in one of his research publications? Bigoted? The idea of market contracting for cable television hardly represented the destruction of Samuelson's beloved New Deal, and these days it is standard fare. Samuelson insisted he wasn't rendering a final judgment on market-supplied cable television, but he couldn't bring himself to recognize that it was obviously a good idea, even though some consumers would be excluded from a public

¹³⁸ On public goods, see the classic articles Samuelson (1954, 1955).

good by the non-zero price. Samuelson's reaction to Minasian brings us back to the point that Samuelson was a brilliant economist who didn't understand the economy very well.¹³⁹

Samuelson was especially condescending to Milton Friedman. For instance, in a 2003 interview with William Barnett, Samuelson was discussing Friedman's focus on measures of the money supply and he tossed in: "We all pity warm-hearted scholars who get stuck on the wrong paths of socialistic hope. That same kind of regrettable choice characterizes anyone who bets doggedly on ESP, or creationism, or... [TC: the three dots are from Samuelson himself, not from this author to indicate that there is more to the quotation] The pity of it increases for one who adopts a simple theory of positivism that exonerates a nominated theory, even if its premises are unrealistic, so long only as it seems to describe with approximate accuracy some facts."¹⁴⁰

Friedman's focus on the money supply has not held up, as Samuelson suggested, but the alternative Keynesian macro models recommended by Samuelson in the same interview have not done better and they were not outperforming simple random walk models of predicting the macroeconomic future. Samuelson was not good at seeing all the sides of a particular issue, though he was superb at modeling one particular side of the debate. Friedrich Hayek once wrote a letter to Samuelson, referencing his treatment of Road to Serfdom in Samuelson's text and accused him of "malicious distortion".¹⁴¹

Samuelson's irrationality when it came to Friedman is reflected in the following anecdote, offered by Janice Murray, Samuelson's assistant who worked with him for twenty years and overall was trying to offer a glowing assessment of her boss. Here goes:

¹³⁹ See Samuelson (1964), and p.83 for the "bigoted devotee" quotation.

¹⁴⁰ Barnett (2003, p.522).

¹⁴¹ On Hayek's letter, see Caldwell (2007, p.29).

“His differences with Milton Friedman, and the credibility Milton received, frustrated and annoyed him. For fifty years he and Milton claimed to be friends, through the discordance. In earlier years, Paul and Milton famously debated often. Paul remarked, “I won every argument but lost every debate.” He was grumpy when he learned Milton had been feted at the White House for his ninetieth birthday. After Milton died, Paul’s suppressed frustrations finally could be released and he published a scathing article. Milton’s son wrote Paul immediately, defending his father, “A chip off the old block,” I told Paul as I handed him the letter. It gave him satisfaction that he outlived him.”¹⁴²

She also tells us: “Paul did not like change. He wanted to wake up in the same house, in the same neighborhood, drive the same car, work in the same office, every day, with the same assistant. He liked the familiarity and continuity.” What was it that Seinfeld said?: “NOT THAT THERE’S ANYTHING WRONG WITH THAT!” Still, when you compare this to Keynes and his variegated life, experiences, and insights, it is hard to see Samuelson as GOAT.¹⁴³

Or how about the account from Robert Higgs, later an economic historian at the University of Washington. He visited MIT as a 24-year-old graduate student, and recalls being mocked by Samuelson. He reported: “...it was clear to me that Samuelson’s jokes at a colleague’s expense dominated a colleague’s jokes at his expense. This pecking order came as no surprise to me. I was taken aback, however, that the great man also made jokes at my expense...I remain disappointed that the acclaimed “greatest living economist”...chose to make sport of a mere graduate student.”¹⁴⁴

¹⁴² See Murray (2020, p.824).

¹⁴³ See Murray (2020, p.817).

¹⁴⁴ See Higgs (2014, pp.104-105).

Samuelson liked to jibe at Milton Friedman as well, and after Friedman testified before Congress in 1952, Samuelson testified as well, and referred to Friedman's "mystical view" and "sophomore fallacies," among other insults. It is hard to avoid the conclusion that such rhetoric was not ideally suited for learning from other people.¹⁴⁵

Overall it is hard to avoid the impression that, for all his brilliance, there was something small-minded about Samuelson's vision of the world.

Samuelson has two pieces more important than all of his others, and indeed I consider those to be two of the greatest economic publications of all time. The first was his derivation that asset price returns should be a random walk, namely his 1965 "Proof that Properly Anticipated Prices Fluctuate Randomly." Samuelson was drawing on the earlier 1900 work of the French mathematician Louis Bachelier, but he formalized the idea elegantly and laid the foundations for the efficient markets hypothesis and the entire subsequent development of the field of financial economics. It is interesting that perhaps his best paper was one that ran counter to his ideology. It is also impressive that the main paper by Samuelson was only nine pages long. Samuelson was not one to mince words.¹⁴⁶

The second most important paper was Samuelson's "A Exact Consumption Loan Model of Interest, With or Without the Contrivance of Money," published in 1958. This piece is not easy to summarize, but Samuelson put his brilliant mind to thinking about a new way of modeling economic interactions across the generations and indeed across time. All at once, Samuelson

¹⁴⁵ See Burns (2023, p.209).

¹⁴⁶ See Samuelson (1965) and also see his 1973 follow-up "Proof That Properly Discounted Present Values of Assets Vibrate Randomly."

gave economists a new way of thinking about Social Security, a new way of modeling money (as a “hot potato” in an overlapping generations game), a new way of thinking about the relationship between an economy’s interest rate and growth rate, and a new way of thinking about the import of population growth rates and also their relationship with interest rates. Whew! And that was all done using a single elegant model. Furthermore, this paper had no obvious precursor. Samuelson got a modeling idea into his head and pursued it consistently, and what came out at the end was very much his contribution.

As with Milton Friedman’s optimum quantity of money argument, I am not sure that the insights and methods in this Samuelson paper are the correct ones, because the model is stripped of so many features of the real world. Still, we use Samuelson’s concepts from this piece all the time in economics, even if we do not in every way consider them to be the best or most realistic model of the macroeconomy. And Samuelson, to be clear, never made an ontological commitment as to the status of the model. He wrote as if the model were a direct description of the real world, but that is probably more about his usual bluntness than any particular methodological view. At times, the reader is convinced that Samuelson knew he was pulling our leg from beginning to end. Science fiction fans will love this paper, and I mean that as praise. It is wild and imaginative and outrageous, and indeed it is a world of science fiction.

They truly could have given at least five Nobel Prizes to Samuelson. As Robert C. Merton (himself a Nobel laureate) pointed out, Samuelson was almost certainly “the last great general economist,” having made fundamental contributions to so many different areas of economics.¹⁴⁷

By no means did all of Samuelson’s contributions bear long-term fruit. His doctoral dissertation, the once-famous Foundations of Economic Analysis, made the profession more mathematical,

¹⁴⁷ Merton (2006, p.9).

but mostly has proven a dead end. His insistence on the “Bergson-Samuelson” social welfare function, and his desire to use it to drive technocratic planning, did not prevail, in part due to Kenneth Arrow and his more insightful contributions to social choice theory. His capital theory has not held up, nor has his “multiplier-accelerator” mechanism. He promoted linear programming techniques in economics, and I would describe that as a necessary step at the time, though again not predictive of current and future research paths circa 2023. I already have discussed his insistence on theories of wage-push inflation, now discredited.

Those are hardly disqualifying failures given the enormous range and reach of Samuelson’s contributions, but still it is part of the overall record. The general mistake behind these failed ideas was I think the desire to pursue a particular set of mathematical techniques, rather than understanding what exactly the complex problems out there in the world and how it is that markets work, when indeed they do.

A big negative for Samuelson – at least for GOAT contention – is that he never published a significant body of empirical work, and in this regard the contrast with Friedman is glaring. This factor alone makes it hard to put him over Friedman.

On the positive side, a major point in Samuelson's favor is his role in building up the economics department at MIT. When Samuelson arrived at MIT in 1940 (Harvard rejected him for partly anti-Semitic reasons), MIT was a backwater. By the 1960s, MIT was one of the two or three best economics departments in the world, with Solow, Modigliani, Domar, and many other notables on the faculty at various times and for major stretches. From the 1970s up through the present day, MIT arguably attracts the very best graduate students of any Ph.D. program in economics, much better than say the University of Chicago. Paul Samuelson had a major hand in making this all happen, and that is very much to his credit.

Second, Paul Samuelson loved the history of economic thought, and wrote several pieces in the area. Those pieces are always fun, and like most outings into the history of economic thought they reflect both the broader strengths and weaknesses of the analyst. The insights were sharp, and Samuelson did whatever was necessary to put the insights of earlier thinkers into his toy models. You got Samuelson, not David Ricardo or Bertil Ohlin. And as you might expect, Samuelson was least interested in modeling the great economists who were especially deep and multi-faceted, such as Adam Smith. Ricardian rent or machinery questions, however, or factor price equalization, were right up his alley. You got to learn what the history of economics would look like if everyone were like Paul Samuelson, and that was a valuable contribution.¹⁴⁸

Samuelson is one of the all-time greats, but I am not going to put him on the short list for GOAT.

There are two striking takeaways from his career. The first is how compatible it is to be a great economist – such a great economist -- and not understand the economy. On the surface that sounds terrible, but perhaps such a bifurcation allows economics to mobilize a more diverse set of talents. Demanding “truth perception” from everybody would place a serious tax on economic creativity. I, for one, am very glad that Samuelson was able to do what he did, and I am quite sure, to cite just one of his areas of contribution, that my own understanding of the history of economic thought has been much enriched by his articles in the area.

The second point is that he and Friedman were two of the three greatest economists of their era (with Kenneth Arrow – coming up next) being the third. Both Samuelson and Friedman had a

¹⁴⁸ For some of Samuelson on history of economic thought, you might try Samuelson (1988) on Ricardo or Samuelson (1971c) on Bertil Ohlin. Samuelson (1962) offers a meta-look at the history of economic thought.

certain dogmatism or narrowness of perspective when it came to economic policy, Friedman's being somewhat less fatal in terms of truth value. What should that tell us? Might it be that ideological dogmatism to some extent drives truth and science forward?

Samuelson's great strength and weakness was the idea he carried forward, namely that a particular kind of mathematical modeling is the correct way of approaching an economy. That motivated him to develop new and better models, some of them quite splendid. But it also led him astray, for instance into the view that technocratic central planning could develop an economy. A better method would have been "modeling is a wonderful way of disciplining economic arguments," but perhaps that more modest vision would not have motivated him as much either.

Before moving on, I ought to confess my biases on Samuelson. Unfortunately, I never met him, and I could have, and I can only blame myself. But all along I have had the impression that he was difficult, at least in his professional capacities. From a distance, I never liked him. To make it worse, he was great at exactly what I am not good at, namely building economic models. He also seemed to be rude to everyone I liked. Finally, I did my graduate work at Harvard, and we Harvard students had the sense that the MIT graduate students as a whole were better and more cohesive than we were. They also were more arrogant (which is saying something), and more dismissive of lower-status economics. Might it be that some of that arrogance reflects the original influence of Samuelson on the MIT program?

So I have negative biases against Paul Samuelson, with multiple sources for that bias, make of that what you will. Even if I had put him on the short list and given him a whole chapter of his own, he still wasn't going to win. I bet some of you knew that all along.

Kenneth Arrow

Kenneth Arrow (1921-2017) was perhaps the deepest economic thinker of the 20th century, he came up with some of the most important ideas in all of economics, he could have won numerous distinct Nobel prizes, and very little can be said against him. For all of those reasons, any discussion of GOAT has to contend with Arrow in some manner or another. Of all the recent contenders for GOAT, he is the one who deserves to be called a true genius.

Arrow's work touches on the very foundations of economic thought more than does any other modern economist. His most important contribution, though not his best known, is to build up economics from a theory of "state prices." Imagine a security that pays you one dollar if a particular state of the world comes to pass, say it rains in Los Angeles tomorrow. That is like some of our current prediction markets, where you can bet on who becomes president or who wins the Super Bowl.

Those securities in turn have prices. Take the contract "pays me a dollar if my house burns down," which is a bit like fire insurance. Or "pays me a dollar if the economy enters a depression." In terms of marginal utility, those dollars are worth more than dollars in more prosperous times, because you need dollars more in those states of affairs, precisely because you are poorer. There is thus a market price for each of these contracts, reflecting how much a dollar is worth in varying states of the world.

That seems simple enough, but Arrow showed how much of our understanding of economics can be built upon such foundations. If we understand such "state prices," as they are called, we can (in principle) price *any* financial asset, by breaking it down into its composite state price securities. Arrow's work showed that such a decomposition was possible and how it might

proceed. These state price securities thus turn out to be a very fundamental building block of economics. If you are trying to price a stock or a bond, for instance, ultimately you go through a process that breaks those securities down into their component parts, namely by considering under which world states those assets will be paying you dividends and interest, and how much those dollars would then be worth in those world states.

Arrow's state price approach thus serves as the foundation for modern financial economics, including the Capital Asset Pricing Model, options pricing theory, currencies, the pricing of insurance contracts, and much more. There is not a simple way to spell out Arrow's argument in this book, but I will refer you to a 1987 on-line Hal Varian piece called "The Arbitrage Principle in Financial Economics." You can Google to it, and read it if you have some time and know some math. Or if you want to try Arrow in the original, look for "The Role of Securities in the Optimal Allocation of Risk-bearing," which is also on-line. But, while it is clearly presented, Arrow was sufficiently cryptic that few people caught on right away. This essay was barely six pages long, and most of that is the math, and it is easy to imagine that many people at the time had no idea what was going on in the piece.¹⁴⁹

Arrow's argument contained yet another subtle point, namely that you can put together a smaller number of markets to make a bigger number of markets; this later was called "spanning." For instance, let's say you have a market for shipping goods from Boston to NYC, and a separate market for shipping goods from NYC further down to Washington. There is actually a third implied market here, and a third implied market price, namely for shipping from Boston all the way down to DC. Just buy the two shipping contracts separately, and put them together to make your own long-term shipping plan. That sounds really simple, doesn't it? Well, Arrow's brilliance was to see how much of economic context and economic order is created from

¹⁴⁹ See Arrow (1964).

synthetic combinations of contracts, or at least the possibility that you could engage in such synthetic combinations, if necessary. My example is transparent and a little silly, but Arrow's machinery showed the importance of synthetic market creation in more complex settings. With only a few basic assets, you can construct all kinds of complex risk profiles, if only you trade and hold those assets according to the right mathematics. In other words, individuals in the economy have access to a lot more markets, a lot more (implicit) financial securities, and a lot more available risk-return profiles than it might appear at first glance.

The state pricing approach is likely to remain one of the most important economic contributions of all time, and it underlies so much of contemporary financial practice, most of all financial derivatives. It also is a fundamental extension of Hayek. Hayek's examples, discussed in our previous chapter, involve entrepreneurs looking at say the price of iron, and inferring information about relative scarcities, such as the need to conserve iron, the possibility of finding better minerals than iron, whether we should expand the production of outputs using iron, and so on. Arrow's point about synthetic state prices can within Hayekian language be reformulated as follows: given a set of market prices, due to the implied (synthetic) markets and implied (synthetic) market prices they create, a much broader array of information in fact is created than it may at first appear, even if the number of observed prices is small. So, for instance, if you look at the price of iron and also the price of steel, which is made from iron, you can infer quite a bit about the value of the process connecting iron to steel, even if you cannot observe those prices directly. Arrow thus out-Hayeked Hayek, by showing that the informational power of markets could be quite extreme indeed.

To be clear, Hayek was much more an advocate of markets than was Arrow, who stood clearly to Hayek's left, and probably to the left of most American Democrats of his time. Arrow had strong views about how markets might break down, and feed people the wrong price information, which

brings us to Arrow's next major contribution, namely the theory of moral hazard. Still, Arrow showed the market at least *potentially* had even more power than Hayek had shown.

You can think of prediction markets as an attempt to turn Arrow's vision into reality, though they have yet to take off on a major scale. More extreme yet are the token-based securities issues that for a while were so common in the crypto start-up world. "I will just create my own security, and issue it myself, and if my company does really well it will be worth a lot!" At least as I am writing, these two institutions illustrate a lot of the difficulties with asset creation and market-making, but of course their histories are not over yet. You can think of them as attempts to turn Arrowian theoretical fantasy into real world practice, but if they fail don't blame Arrow – he was acutely aware of market imperfections from the beginning.

Looking to the broader economy as a whole, Arrow understood very well that perfect insurance markets were impossible, most of all because of moral hazard. Let's say for instance that you fully insured your car against theft, with no deductible and no costs associated with filing the insurance claim. In that case, you wouldn't take great care to stop your car from being stolen, because the theft would not impose any net costs on you. In similar fashion, complete insurance induces individuals to take suboptimal levels of care, whether it be fire insurance, health insurance, liability insurance, or any number of other areas. Given that incentives problem, insurance will remain incomplete and imperfect, and so Arrow saw a significant role for government to protect people against risk, whether it be risks from health outcomes or risks from research projects not delivering their intended results (more on that later).

Arrow's paper "Uncertainty and the Welfare Economics of Medical Care," from 1963, laid the foundations for thinking about market failure in the health care sector and it also built upon his moral hazard idea. Arrow pointed out that moral hazard plagues the health care sector, as a result

private insurance contracts will remain incomplete, and that is one reason why a purely private market in health insurance will not operate properly. More fundamentally, Arrow laid out asymmetric information – the doctor or hospital often knows more about appropriate health care information than does the patient – as a fundamental reason why markets in health care are likely to malfunction. Patients just aren't in a good position to act as sophisticated, informed consumers, at least in a lot of cases.

Arrow's moral hazard is praised greatly, but it does not exactly correspond to how most economists think about the issue these days. We no longer see moral hazard as the main problem behind market-supplied health care.

It is interesting how, over the years, moral hazard has switched from a "left-wing concern" within the economics profession to a "right-wing concern." The truth is that moral hazard concerns very often are worse with government programs than with markets. Did the government just give you a Medicaid benefit? Well, why wouldn't the response be to stop taking such good care of your health? Whether or not you think that is a significant worry, that is the kind of concern Arrow's theory of moral hazard is going to lead you to.

You can see why the "moral hazard cudgel" is by no means unambiguously going to stand in favor of government intervention. And maybe you reject the moral hazard concern in this context, claiming something like "I'm not going to go get sick just to claim some health benefits," but then basically you are rejecting Arrow's theory too, at least as it applied to health insurance. Rather than moral hazard being a major problem, behavioral imperfections, myopia, and carelessness seem to play a bigger role in our health care failures. People underinvest in stemming their own diabetes risk because they are myopic, not because they have bought too much insurance. And if you look at totally uninsured people, they seem to underinvest in taking

care of themselves more than almost anyone, again contrary to Arrow's postulate. Arrow's theory of moral hazard in health care thus has ended up a less important idea than it might have seemed at the time. If you are looking for a simple argument, however, for why people might abuse the government programs they are being offered, moral hazard concerns are standing ready on the shelf, and thus their popularity with many right-wing thinkers.

Arrow's broader approach to health care, emphasizing asymmetric information, also doesn't quite fit the actual problems as we have experienced them. Asymmetric information theories typically predict that quantity consumed of a good or service will be low, because patients will be afraid that doctors and hospitals will rip them off, overcharge them, sell them too many treatments, and so on. Government intervention, even supposed quality controls, do not *per se* make that problem go away. Yet if we look at the actual health care sector, at least in the United States, there is strong evidence for massive *overtreatment*. Economists still praise Arrow's piece to the skies, in part because health care is an emotional issue, Arrow made a coherent case against the market, and Arrow's credentials are unimpeachable. But it's time for someone to say that Arrow didn't quite get it right, even though I would accept his broader conclusion that markets can fail badly in this arena (penis enlargers, anyone?). His theory predicted too little health care spending when much of the actual problem turned out to be too much health care spending and badly directed spending at that.

Arrow's work on research and development argued that markets would undersupply innovation, since the social gains from a good new idea typically exceed the private gains that accrue to the creator. This idea has proven fundamental for making the case for government support for science and research and development. Along related lines, Arrow argued that markets were inefficient mechanisms for risk-bearing, and that some private projects would be rejected on the grounds of excess risk, even though they were socially optimal. What appears to be a big risk for

one person or business firm is actually a pretty small risk for society at large. Ideally, private individuals could buy insurance to hedge against such risks, but unfortunately *moral hazard* – discussed directly above – often intervenes and prevents that solution. This is, for Arrow, yet another case where the simple Hayekian argument for markets doesn't work. Markets may be wonderful for communicating information, but for Arrow often their Achilles heel is protecting against risk.

Arrow also laid the foundations for the idea of “learning by doing,” prominent in business schools and much earlier a major theme in Adam Smith's Wealth of Nations. This was Arrow's take on increasing returns, and he modeled the phenomenon as follows: as a business continues to produce output it learns how to produce better and more effectively, thereby lowering its costs. That may sound trivial by current standards, but Arrow built an elegant model and told us what to look for in the data. It was an important piece for redirecting the attention of economists toward topics of learning and accumulating advantages. If you are looking to understand why say Toyota cars are so reliable, Arrow's piece is still probably the best place to start.

By the way, this work was originally commissioned by the U.S. Office of Naval Research, which shows Arrow's roots in American technocracy and also his ties to the military-industrial complex. Most of the top American economists of this time had a broadly similar background, and that includes Friedman, Samuelson, and Thomas Schelling and his work on strategic conflict. You can think of all of those top economists as instruments of American postwar supremacy, in the better sense of that term, and as a sign that the left-wing vs. right-wing back then was not actually so pronounced once seen in the broader global context.

It has not been my focus, but in economics Arrow is perhaps best known for his mathematical proofs of the existence and stability of general equilibrium. In essence, Arrow showed (working

with Frank Hahn, and drawing upon work also from Gerard Debreu and Lionel Mackenzie) that if there are “markets in everything” the whole economy would dovetail and coordinate with all markets clearing. At least if certain mathematical conditions are satisfied about the underlying smoothness of the utility and production functions. That is known as general equilibrium theory, it becomes highly mathematical very quickly, and Arrow was one of the top leaders in its development. For several decades it commanded the attention of many of the brightest minds in economics.

Those are a significant number of very important contributions, and I haven’t even touched on the impossibility theorem yet, or Arrow’s work in environmental economics.

Nonetheless I cannot see Arrow as a GOAT contender for a few reasons.

First, his major contribution of general equilibrium theory has, in the final analysis, not shaped the current directions of economics. Virtually all contemporary economics of note is empirical work, and Arrow did not do much empirical work himself and it is not what he is known for. Few areas of economics have fallen out of favor as much as general equilibrium theory, most of all because it seems so rarified and abstract and removed from real world concerns. I don’t regret that the economics profession went down this path for a while, but still it turned out to be a dead end. The relevance of general equilibrium theory might someday make a comeback, powered by computable general equilibrium models and artificial intelligence, but until that happens Arrow just doesn’t seem to be “where it’s at.”

That said, and to Arrow’s credit, an immense variety of empirical estimations do include general equilibrium effects in their models, and without those effects the empirical work would be much worse. Are we going to raise or cut the corporate income tax rate? Well, we do need to figure out

how all the different variables – capital flows, wages, exchange rates, budget deficits, and so on – all fit together. In that regard general equilibrium analysis remains of the utmost relevance, but nonetheless as a research topic in its own right it is these days mostly been laid to rest.

Second, another of Arrow's major contributions, the Arrow Impossibility Theorem, just isn't that important. If you don't know this work, which formed Arrow's doctoral thesis, it proved that a meaningful social welfare function is unable to satisfy four basic postulates simultaneously (unrestricted domain, Pareto efficiency, non-dictatorship, and independence of irrelevant alternatives, in current lingo). It thus seemed that the previous economic faith in social welfare functions and normative policy analysis was misplaced. Arrow's work hit the profession like a bombshell in 1951, and people scurried to recover, most of all Paul Samuelson, who feared that his earlier work with Abram Bergson no longer had much normative significance (on that, Arrow largely was right).

To be sure, Arrow's Impossibility Theorem is "Nobel Prize important," but it is not really, truly important. We now, due to decades of research and bickering, pretty much understand what the Arrow Impossibility Theorem means, and frankly it isn't all that earth-shattering. (Though it is far better to accept Arrow's theorem than to deny it, as Samuelson essentially did.) The Arrow Impossibility Theorem implies that if you wish to make sound judgments as to what is better for society, your reasoning has to involve some degree of commitment to comparing the utilities or well-being of one person to another. Upon reflection, that is hardly surprising.

Arrow brought us to that point by a remarkable and highly complex yet rigorous mathematical path, one with thrilling twists and turns along the way. But at the end of the day we stand with a truth that probably already was evident to most 19th British moral philosophers, whether they were full utilitarians or not. You cannot avoid comparing the well-being of some people to the

well-being of others. In the more formal sense, social choice theorists (the name of the field Arrow's work has created) have known this since the mid to late 1970s, when the true meaning of Arrow's theorem finally was figured out.

The great thing about the Impossibility Theorem is that it did indeed lead to “decades of research and bickering.” The sad thing is that those decades didn't pay off in terms of actual substantive understanding of social welfare. We ended up more or less at points that would have been familiar to Jeremy Bentham or John Stuart Mill in the previous century. In more modern technical terms, rejecting Arrow's “independence of irrelevant alternatives” axiom involves the acceptance of normative information above and beyond simple individual ordinal preference rankings.

Third, Arrow didn't do much macroeconomics in the traditional sense. On one hand, general equilibrium theory is by definition macroeconomics, and many of Arrow's ideas, such as moral hazard, have macroeconomic implications. But he didn't do much to boost our understanding of economic growth or unemployment. To his credit, Arrow was interested in environmental issues relatively early on, and you can think of that as a kind of macroeconomics. But all of our other GOAT contenders did both macro and micro, and Arrow did not.

Given the depth of his other contributions, Arrow remains an economist in the very highest tier, but still I cannot quite bring myself to put him on the very short list for GOAT.

I had personal encounters with Kenneth Arrow on two occasions. First, in the mid-1980s I heard him give a talk at Harvard on welfare economics and interpersonal comparison of well-being, using Adam Smith's concept of sympathy, and how we might estimate the well-being of other people (“what if I stood in your shoes?”). It was a snooze fest, as are Arrow's associated

publications on this topic. At the time most of the audience felt the same way I did, and I think that reflects Arrow's inability to come to grips with the fact that the interesting issues in social choice and welfare economics stood outside of his modeling techniques.

Second and more recently, I was on a panel with Arrow on the state of the economics profession. By this time Arrow was in his 90s, yet his remarks and observations were insightful and entirely competitive with those of the other panel members. It seemed that he remained fresh and mentally alive until the end, and he conducted himself in a very polite and gracious manner. I have never heard any person say the slightest negative thing about Kenneth Arrow as a human being.

Arrow was famed for being a polymath and for the extreme scope of his knowledge. Tales of his knowledge of music and the arts and history are legendary. Here is just one quickie excerpt from a "life philosophy" sketch he wrote: "It is impossible to read literature in a purely formal way. I was in fact drawn first to Dostoyevski and Hardy, novelists whose realism was driven by a perception of the demonic and the irrational, a world very different from the abstract beauty of mathematics or music, as well as to the all-encompassing Shakespeare. I did, after a bit, also seek the more ordered worlds of who we then thought of as "modern" writers: Joyce and Eliot. But violence and disorder are close to the surface in them also."¹⁵⁰

If you are wondering about my biases, I have always very much liked and respected Arrow and his work, and appreciated its connection with the deep philosophical issues in economics. I would place him clearly above Samuelson, and of all those who lose out on making the short list, he seems to me to come the closest. Aesthetically speaking, and given his interests in literature and philosophy, I would be very pleased if I could name Arrow as GOAT. Still, I don't think his

¹⁵⁰ See Arrow (1992, p.50).

overall portfolio is quite balanced enough, as there is too much emphasis on pure microeconomic theory.

Nonetheless, if you wish to think highly of economics as a body for carrying ideas, or if you wish to observe the career of a scholar with virtually no flaws, it is hard to do better than to study the work of Kenneth J. Arrow.

Gary Becker

Gary Becker (1930-2014) had an earlier stint at Columbia, but spent most of his career at the University of Chicago. He won a Nobel prize, and indeed could have won a half dozen of them. He was a major force behind the economic analysis of human capital, the economics of discrimination, economics of the family, the economics of fertility, law and economics, the allocation of time, how interest groups pressure the government, the economic theory of addiction, and how to understand advertising and social pressures in economic models.

In terms of the bigger picture, Becker did more than anyone else to promote the notion and indeed the practice of economic imperialism, namely that the methods of economics should spread to the other social sciences. For instance, if you are analyzing resource allocation within the family, Becker thought you should write down utility functions and constraints, and then solve for the possible equilibria, based on assumptions of maximization and rationality. After that you might then apply econometrics to the problem, much as many people have done to problems as diverse as divorce law, bequests, female labor supply, investment in the human capital of the children, and much more. He thought that was a more fruitful approach than the more traditional methods of sociology and anthropology.

Most of all, for me, Becker was a true “micro-machine,” a relentless, unstoppable thinker, analyst, and writer with the button always in the “on” position. Anything he did would be thought through to the maximum extent, at least relative to the conceptual tools at Becker’s disposal. And he never ever stopped. He died with his boots on, as one colleague of Becker’s once related to me.

Yet I don’t feel the need to give you a comprehensive analysis of Becker for the following reason: I can’t quite see putting him above Milton Friedman in the GOAT sweepstakes. And the purpose here is not to evaluate every wonderful economist, but to determine GOAT, and there Becker has to fall short.

I should add that much of Becker’s work has not aged well in the last ten to fifteen years. In recent times, economics has become more like sociology than sociology has become like economics. Behavioral economics has assumed greater importance, relative to the relative price effects and rational choice approaches that are so prominent in Becker’s work. His “economics of the family,” which seems to rationalize male breadwinner dominance, is now considered somewhat chauvinist or at least old-fashioned, though it fit the 1960s frame he wrote in. Even at the University of Chicago, new hires do not seem to be moving in the Beckerian direction. Hardly any current up and coming young economists seem to regard Becker as a critical influence or an inspiration, even if his indirect influence on them is immense. Becker’s breadth of topics has won out as a dominant approach, but not his modeling methods or his obsession with demonstrating the rationality of different social practices.

I don't side against Becker on all of these questions, but as a simple description of where the profession is at, Becker has lost a lot of status and influence. That too removes him from the GOAT game, though in the meantime I will gladly aver that he is now significantly underrated.

I find Becker fairly boring to read, as the model does most of the work and, while he is perfectly clear, he is not a writer of wit or nuance. I don't recommend his works to other people. His brilliance lies in a method and a machine of inquiry, and in his own relentlessness, and in the breadth of investigation he helped to create. Now that his presence has left the stage, his import will become less evident with time and I predict he will end up underrated all the more.

I had interactions with Becker on two occasions, both at the University of Chicago rational choice seminar, which back then was run by Becker. The first time he was very critical of what I presented, and the second time quite laudatory. Both times he was right, and both times entirely fair. Still, facing him was a terror of sorts, because if your argument had a hole or shortcoming he was sure to find it and point it out in the most direct manner possible. He embodied the University of Chicago tradition at its very best.

I liked thinking that Becker was "out there," and I am now sorry that he is gone.

Joseph Schumpeter

Perhaps you have heard that Schumpeter once claimed the following: "Early in life I had three ambitions. I wanted to be the greatest economist in the world, the greatest horseman in Austria, and the best lover in Vienna. Well, I never became the greatest horseman in Austria." I would put

it somewhat differently. Yet in spite of this unmerited braggadocio, Schumpeter has significant and still underrated claims to GOAT.¹⁵¹

First, he knew more about the history of economics than any other individual mentioned in this book. His History of Economic Analysis is an unprecedented look at economic doctrines, running from the medieval scholastics ranging up through Schumpeter's own time. Schumpeter read the major European languages (and then some) and it shows. Do you want to know which Swede had the best analysis of 18th century exchange rates? Schumpeter was the guy to ask. Many of the judgments in this book were idiosyncratic and unjustified, such as the quick dismissal of Adam Smith for his unoriginality. Nonetheless Schumpeter really did encompass and understand all that went before him, a non-trivial achievement that only John Stuart Mill could rival, from our other GOAT contenders.

Hayek for one was impressed by Schumpeter and he put it thus: "Schumpeter is a greater scholar than Keynes, and a more brilliant intellect. There was a most impressive quickness with which he would see a point." Hayek also noted that Schumpeter and Keynes were the two people who were most interesting to spend an evening with.¹⁵²

In addition to his impressiveness in intellectual history, Schumpeter did more than any other economist to focus attention on the importance of the entrepreneur. His 1911 Theory of Economic Development to this day remains the best and most important treatment of entrepreneurship. Are you sick of all those Silicon Valley gonzos talking about and perhaps even practicing "disruption"? Well, you have Schumpeter to thank for that, as he put the idea out there

¹⁵¹ See Drezner (2005).

¹⁵² See Hayek (1994, p.95).

clear as day. Even if it has become a cliché, the idea is truly important and Schumpeter gets significant credit for drawing our attention to it. His main idea is still a big, big deal in current discourse.

Along with his entrepreneurship theories, Schumpeter fleshed out the idea of “creative destruction” (later, in his Capitalism, Socialism, and Democracy), namely that a capitalist economy advances by getting rid of many of the things it used to do and replacing them with new activities. For instance, it is no longer the case that most of the workforce is employed in agriculture, and in recent decades the percentage of the workforce employed in manufacturing typically has been falling as well, at least for the advanced Western economies. The resulting resource reallocations free up creativity to drive new innovations, such as the tech sector. This notion of the old replacing the new, and of innovation involving some losses and shrinkage to older economic sectors, is one of the most important ideas in economics. Again Schumpeter gets major credit for this notion.¹⁵³

There is yet more to be said for Schumpeter. Arguably the central issue of the 19th and 20th centuries, other than the two World Wars, was imperialism. Which of our GOAT contenders wrote anything decent about imperialism? Keynes favored it uncritically, Hayek was mostly silent, and Friedman had tossed off remarks opposing it, but without insight. Schumpeter wrote a lengthy essay on it, the piece is still read today, and it is largely correct.

In his essay “Imperialism,” published in German in 1919 [1951 in English), Schumpeter argues that imperialism, far from being an essential product of capitalism, is a vestige of a more distant

¹⁵³ Some of you will know that I titled one of my own books Creative Destruction: How Globalization is Changing the World’s Cultures, applying Schumpeter’s ideas to the interplay of cultures that globalization has brought about.

feudal past. He portrayed imperialism as the product of autocratic states, but sometimes hanging around as an alien residual, alive in the mentalities of many people with ties to the older regime but due to fade with time. In his view, capitalism, while it does have its expansionist side, encourages energy for labor rather than energy for war and conquest, and it distracts people from issues of foreign policy.

You can read Schumpeter as looking forward to the free trade orientation of the later European Union, and realizing that the earlier “scramble for colonies,” as it had predated and partially caused World War One, was not going to be repeated. In this regard Schumpeter was more correct than Lenin, Hilferding, Luxemburg, and Hobson, who all connected capitalism to imperialism in varying essentialist manners. As an American, well aware of my country’s history with Native Americans, the Mexican-American War, and the War of 1898, I can’t quite buy Schumpeter’s thesis as a universal claim about imperialism and feudalism. Nonetheless it is much superior to the Marxist understandings that were current in Europe at the time. To oversimplify a bit, Schumpeter was for capitalism and against imperialism, and a number of our other GOAT contenders could have taken a lesson from him on that one.

Schumpeter also laid out an intriguing albeit underdeveloped notion of residual ideological mistakes in social and economic systems, and it is unfortunate that economics has not pursued this idea further. Atavisms can persist, and imperialism as an atavistic influence can persist in capitalism, thereby giving rise to mixed impulses. Nonetheless, Schumpeter thought that essentially capitalist systems had citizenries and voting blocs that were not fundamentally interested in foreign conquest, and that to mobilize the atavistic imperialist influences those voters would need to be manipulated by slogans and phony concerns.¹⁵⁴

¹⁵⁴ See Schumpeter (1951, pp.64-97) [1919].

What else might be said for Schumpeter? His 1942 book Capitalism, Socialism, and Democracy presents major contributions along a number of fronts, in addition to the afore-mentioned analysis of creative destruction. The analysis of democracy considers voter irrationality and voter conformism as reasons why democratic decision-making is highly imperfect, anticipating later developments in public choice theory. Schumpeter also argued that big business is essential, most of all because large monopolies are superior as innovators; this controversial proposition still is being analyzed and assessed by economists. More generally, Schumpeter considered bureaucratization as a central problem of our time, and he feared that over time large capitalist enterprises would stultify and lose the ability to engage in rational economic calculation, losing their roots in innovation and becoming a true managerial class. He also worried that capitalism would create and finance a resentful, under-rewarded class of intellectuals, and promote them on the basis of critique and criticism, and thus those intellectuals would turn on capitalism itself. There is also a sustained critique of Marxism that does not read as so out of place any more. Overall the book drew upon Schumpeter's central European heritage and stunning knowledge of history, and neither Samuelson nor Friedman could have pulled it off.¹⁵⁵

Finally, Schumpeter had an interesting life. He administered the estate of an Egyptian princess, was president of a private bank, for a few years worked as Minister of Finance in Austria right after World War I, and in 1932 moved to Harvard, where he helped build up American prowess in economics and also in social understanding more broadly. Plus all that horsemanship.¹⁵⁶

OK, with all that in his favor, why isn't Schumpeter in the running on the short list?

¹⁵⁵ See Schumpeter (2008) [1942].

¹⁵⁶ On the life of Schumpeter, see McCraw (2007), Swedberg (2013), Horowitz and Allen (2017), Stolper (2019), and briefly Hoselitz (1951).

Here I think the answer is pretty simple, and it doesn't take much away from Schumpeter. Most of his genius was not in economic analysis per se, but rather was in social theory. His best ideas on entrepreneurship and creative destruction were more "announced" and put out there and described in macro sociological terms than analyzed rigorously using economic reasoning. He considered their broader social implications in interesting and fruitful ways, but showed little microeconomic rigor in the sense you might find in Marshall or Pareto or Friedman. If you consider his observations on intellectuals under capitalism, in his Capitalism, Socialism, and Democracy -- one of the highlights of his career -- it reads like social theory rather than economics. That does not diminish the value of Schumpeter's observations, but it does limit his claim to GOAT within the field of economics.

There is hardly a journal article out there by Schumpeter where he just flat out does excellent economic analysis. Like Keynes, if I compare him to Jacob Viner or Bertil Ohlin his microeconomic rigor is lacking. So I do view Schumpeter as one of the top social scientists, but more akin to Tocqueville or Max Weber than to say Keynes or Friedman. I intend that as praise as much as criticism, but it keeps Schumpeter away from GOAT. I would be very happy with a world where Tocqueville and Max Weber were terminologically reclassified as brilliant economists, but in the meantime I don't think I should bend my GOAT pick to match to that hypothetical intellectual utopia.

Hayek took a jab at Schumpeter when he noted that Schumpeter "...had a complete lack of a really coherent philosophy." I don't think that is true -- I read Schumpeter as defending and trying to modernize a particular kind of central European classical liberalism, yet without all of the metaphysical contortions of Hayek. He also wished to outline the preconditions for dynamism, and to explore the various ramifications of whether there could in fact be stable foundations for a perpetually dynamic society, fearing that perhaps this was impossible. Most of all he wanted to

fight back Marxism, which he viewed as destroying the intellectual European world he had loved, and this is obvious from the first few chapters of Capitalism, Socialism, and Democracy. Still, reading through Schumpeter's works as a whole, the main unifying positive themes do not exactly jump out at you, and Hayek's jab is understandable if not entirely fair.¹⁵⁷

If you want a final neg against Schumpeter, his macroeconomics was not great. He wrote two long volumes on business cycles, entitled appropriately Business Cycles. In those books he portrayed business cycles as stemming from long waves of technological activity and innovation, which in turn disrupt economies and cause cyclical fluctuations. For Schumpeter, you could measure those waves and perhaps predict the next turning point. As it turns out, after Schumpeter wrote most recessions were caused by either the bursting of asset price bubbles, monetary policy mistakes (unnecessary deflations), or sharp increases in the price of oil. Even if Schumpeter's perspective has some hitherto unrecognized long-run validity, when it came to macro he mostly missed the boat.

Alfred Marshall

The positive case for Marshall is clear – the appendices of his 1890 Principles of Economics contain much of modern microeconomics, in conceptual, algebraic, and diagrammatic forms. Virtually none of that material is out of date and you could teach from it today without significant modifications. In less than twenty years after the marginal revolution of 1871, which laid the foundations of modern economics, Marshall figured out the most important implications of marginalism and he spelt them out in easy to use and massively influential form. The work has held up remarkably well in terms of both accuracy and continued relevance. There is no doubt

¹⁵⁷ See Hayek (1994, p.95).

that Marshall belongs in the top tier of economists, and it is hard to come up with big negative marks against him. Even his macroeconomics and monetary theory, while not of GOAT status, were “good enough.”

You will see in the discussion of the labor theory of value, in the Adam Smith chapter, the point that understanding marginalism did not, on its own, give economists a great deal of additional explanatory power at first. “OK, now I can articulate exactly why diamonds are worth more than water at the relevant margin – whoop de doo!” Well, Marshall was the economist who fleshed out the implications of marginalism, thereby opening the analytical doors to give neoclassical economics greater explanatory and conceptual power than classical economics. He enabled Paul Samuelson, Milton Friedman, and virtually everything else that followed him (oddly Keynes is a relative outlier in the sense of not building very much on Marshallian economics in the narrow sense, instead preferring macro in the direction of Malthus.)

So far, so good, but I just can’t see my way to Marshall as GOAT, nor could John Maynard Keynes, who discussed Marshall in detail in the longest biographical sketch in his Essays in Biography. Marshall’s biggest problems are twofold: a) the systematization of diagrammatic marginalist micro was all he did of major import, and b) as a writer, thinker, and public commenter he is boring. Marginalism aside, he didn’t carry any other major ideas forward.

Looking at his work more broadly, Marshall has a sincere interest in the problems of working-class England and working conditions in factories, which he studied in detail, including his work with his wife Mary Paley Marshall, who deserves commendation. He (and she) understood the importance of poverty as a social issue and also as a topic area for economics. That said, he didn’t lead any major movement, or provide any major inspiration, or induce any major policy change, or even offer much *economic* insight into those problems of poverty. I find

his work in these areas entirely fine, and descriptively valuable for its time, but, as noted, plain, outright boring and not very generative.¹⁵⁸

Alfred Marshall, again sometimes working with his wife Mary, also was keen to catalog the conditions and operating problems of business firms, in a manner consistent with the later institutionalist approaches to industrial organization. In fact Marshall thought this kind of institutional presentation stood among his most important contributions. Yet the work did not inspire much follow-up, Marshall did not use his own microeconomic apparatus for these concrete problems of industrial organization, and he never integrated his theoretical contribution with what Keynes called his interest in “the actual facts of industry and trade.”¹⁵⁹

Keynes, in his biographical sketch, serves up an interesting back-handed compliment to Marshall: “As a scientist he was, within his own field, the greatest in the world for a hundred years.” In the context at hand, Keynes is considering the entire tradition of Cambridge economics and those who carried it forward. The contrast here is with Malthus, who published the first edition of his Essay on Population in 1798, and there is another possible contrast with the work of Adam Smith from 1776. Keynes, while praising Marshall, also is saying he didn’t quite have the social and economic oomph of those earlier contributors. What Marshall did have, and here I am happy to endorse the words of Keynes, was “painstaking, complete, ultra-conscientious, ultra-unsensational methods...” He describes Marshall as the first “economist *pur sang*,” or first pure economist, that there ever was.¹⁶⁰

¹⁵⁸ For an interesting take on the history of Mary Marshall in economics, and how she suffered from exclusionary practices, see Pande and Roy (2021).

¹⁵⁹ Keynes (1933a, p.207).

¹⁶⁰ Keynes (1933a, the two quotations from p.169 and p.188 respectively, p.251 on Marshall being the first pure economist).

On the next page, Keynes then seems to compare Marshall with himself. Keynes writes the following about the qualities of top economists:

“The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy and pure science? Yet good, or even competent, economists are the rarest of birds. An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare *combination* of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man’s nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.”¹⁶¹

Keynes then delivers the death blow: “Much, but not all, of this ideal many-sidedness Marshall possessed.” In my admittedly speculative reading this passage, Keynes is implicitly suggesting that he – Keynes – *does* in fact have all those qualities and in spades (correct!). So Marshall, as a Cambridge economist, is sandwiched between Malthus and Keynes, both of whom are his superiors in the GOAT sweepstakes.

Keynes also cites a few other criticisms of Marshall. First, Marshall did not understand which of his own contributions were the important ones. I will add it is striking that Marshall’s most important contributions typically were in the appendices and footnotes to very long works, a

¹⁶¹ Keynes (1933a, p.170).

clear sign of something being wrong with the prioritization and of a certain fuzzy-mindedness. Keynes noted that Marshall wasn't actually well suited to specialize in the discovery of "concrete truth." which he ended up making his priority. Marshall also was too thin-skinned and too sensitive to criticism, and he was too anxious to do good right away, undervaluing the import of scientific contributions that are more fundamental but pay off only in the longer run.¹⁶²

Marshall's massively significant achievements cannot be taken away from him, but Keynes is correct – Marshall is not GOAT.

Other thinkers who don't fit into this book

I've tried to limit my attention to writers who had a chance of actually winning GOAT. But here are several names who deserve greater consideration and who – *as economists* – remain underrated, often grossly underrated: David Hume, Max Weber, Robert Michels, Vilfredo Pareto, Francis Ysidro Edgeworth, William Stanley Jevons, Plato, Homer, George Orwell, Aldous Huxley, Jean-Jacques Rousseau, Montesquieu, and Alexis de Tocqueville. Sadly, I will not get to them in this book, but maybe in the future.

OK, now let's go back in time and consider classical economics, sticking with reverse order, and thus starting with John Stuart Mill, with Malthus and Adam Smith to follow after that.

¹⁶² See Keynes (1933, pp.212-214).

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CHAPTER 6

Why won't anyone nominate John Stuart Mill as GOAT?

John Stuart Mill is subject to varied caricatures, including the boy who rebelled against his father and had a nervous breakdown, the sterile classical economist, the poetry lover, the praiseworthy socialist, and the villainous socialist who led classical liberalism astray. His intellectual status is high, but I am not sure he is much loved, and on a closer examination he was not politically correct enough to pass the standards of the contemporary left. The right views him with suspicion. Few economists today claim to be working in his tradition, and if they are it is without self-awareness of that reality. Nor do many scholars claim to have read all thirty-three (!) volumes of the collected works of John Stuart Mill.

Other times Mill is recognized primarily for his extraordinary education. He was homeschooled by his father, reading Greek at the age of three and Latin at eight. He studied the classics of

Western thought in his early teen years and published his first article on political economy at age 16, a critique of economist Robert Torrens on the theory of value. He might have been the best economist and social thinker in the world by the age of eighteen or so.¹⁶³

All in all, Mill seems perfectly situated to be an underrated GOAT contender. And indeed there is a case ready at hand, if only you will read some significant chunk of those thirty-three volumes, say five or six of them? At least Adam Gopnik, writing in 2008 in The New Yorker had the grace to claim that “Certainly no one has ever been so right about so many things so much of the time as John Stuart Mill...” Yet to this day no one quite “owns” Mill in the sense that the other major GOAT contenders have their partisans.¹⁶⁴

Step one in the case for Mill is that he wrote an excellent tract on women and the economics of gender and discrimination, namely The Subjection of Women, in 1869. To state the obvious, women are more than half of humanity, and to state another only slightly less obvious fact, among the other GOAT contenders only Malthus gives women any consideration at all. Not only did Mill consider the topic of women, but virtually everything he claimed turned out to be true, and insightful, even though it was highly controversial at the time. It is one of the best and most important and most original books of the nineteenth century.

The Subjection of Women is not usually thought of as an economic tract, but obviously it is. The notions of social science mechanisms and causal inference can be found on virtually every page, and I’ll be returning to that later on.

¹⁶³ For one look at this education, see Snyder (2006, p.9).

¹⁶⁴ Adam Gopnik, “Right Again: The Passions of John Stuart Mill,” The New Yorker, September 29, 2008.

A second reason to consider Mill for GOAT is that for much of his career he was by a long mile the smartest and best economist in the entire world. He knew more economics than anyone, and could encompass a greater number of different perspectives than any economist of his time, or for that matter any non-economist. That is in part because he lived through a number of different phases of thought, ranging from Ricardian classical economics and liberalism, up through various moderate phases, and with a later turn to what Mill called socialism, though as we will see it was not the same as twentieth century socialism. He also ranged from a near utopianism to a later fear of economic growth stagnation, and he wavered periodically on Coleridge's conservative view that endowed institutional permanence was an essential feature of society deserving support through policy. Mill was well aware of those multiple tendencies in himself, and he openly regarded many-sidedness as an intellectual virtue.

This variety of thought exceeds that of any of the other GOAT contenders, who were typically more "mono" in their approaches, with the possible exception of Keynes. But even for Keynes, at any single point in time you got "the Keynes of that year," rather than "the summed wisdom of all the Keyneses." As for Friedman and Hayek, once they started writing they were pretty clearly always going to be Friedman and Hayek, becoming more and more so with time. Mill is all-encompassing in a way that no other GOAT contender can claim. Mill in fact became obsessed with Goethe's concept of *Vielseitigkeit*, which can be translated as "many-sidedness." As Laura J. Snyder has explained: "For a time, he admitted, this notion "possessed" him. Mill took "many-sidedness" to mean seeing all points of view in order to find the portions of truth residing in different, even contrary, systems of thought."¹⁶⁵

¹⁶⁵ See Snyder (2006, pp.11-12).

Not only was Mill for decades the best economist in the world, but he was arguably – again for decades – the very best thinker and writer in the world, at least on social science topics. Hayek is the only other GOAT contender where you might even try to make that claim.

Perhaps the most striking feature of Mill's writings – to me at least – is just how much economics is in them, most of all when you do not think you are reading economics. Mill's methods were so far ahead of their time we are in a position to appreciate them only recently. I'll offer some specific examples later, but think of Mill as a) focusing on secondary consequences, b) thinking constantly in terms of bargaining power, c) applying insights from what we now call behavioral economics, d) moving beyond what used to be called traditional economic issues into "economic imperialism," and e) obsessed with questions on causal inference and the philosophy of science. From the vantage point of 1975, Mill did not appear to be such a formidable GOAT contender, rather he was a famous figure who also systematized classical economics, a high-status position but no more than that. In the 2020s, however, Mill seems remarkably ahead of his time and already sitting in positions and methods that the economics profession is only now straining to attain.

On top of his other merits, Mill wrote what proved to be the dominant textbook for many decades, reaching into the early twentieth century. As Schumpeter wrote: "The success of J.S. Mill's Principles was sweeping and much more general, also much more evenly distributed over all countries in which economics received attention, than was that of Ricardo's. This was primarily due to a happy combination of scientific level and accessibility: Mill did present analysis that satisfied competent judges, yet, barring very few points that proved stumbling blocks, every economist could understand him." The Principles of Political Economy is not Mill's most original work, but it reflects the economic understanding of its time and it offered a number of fine original contributions. From my point of view, however, we should not let the

Principles distract us too much from Mill's true importance, which comes largely on what many traditional historians of economic thought might consider ancillary issues.¹⁶⁶

You might ask which historical events Mill took part in or played an intellectual role in, but that is easy. Mill is the central figure in the transition from the liberalism of the earlier classical economists to the liberalism of the later twentieth century, including the social welfare state. Mill's On Liberty is one of the top three or four works written to defend some notion of a liberal society, and it is taught very actively in philosophy and also politics classes up through this day. Mill also spanned the rise of the British empire (which he had much to say about and indeed worked on), the rise of industrialism, the rise of the power of labor, and the beginnings of gender egalitarianism. He was the very last of the classical economists to make significant contributions to the classical approach, and thus some of his work looks backward, but at the social and political level he was very much a harbinger and prophet of the future.

Under the broader aegis of the utilitarian movement, Mill argued for a universal franchise, including for women, universal primary and secondary education, subsidized by the state, cost-benefit analysis for policies, freedom of speech, freedom of religion with no discrimination, and equal rights for women. Each of those might have seemed utopian or crazy in Mill's time, yet all of them have happened in a large number of countries, and typically in the world's most successful and wealthiest countries.¹⁶⁷

Unlike Friedman or Keynes, Mill wrote a series of books and essays that (mostly) succeeded in defending the idea of a free, open liberal democratic society (Friedman's works focus on economic policy and are weak on the philosophical side). If you think that is of paramount

¹⁶⁶ Schumpeter (1980 [1954] p.533).

¹⁶⁷ See Millgram (2019), p.8.

importance, as I do, that counts heavily in Mill's favor. You might charge that such topics are not economics, but somehow – not coincidentally I would say – those topics have occupied the attention of all of the major GOAT contenders. So I say such matters are highly relevant to economics, and furthermore Mill's argument for liberty, and his arguments for some restrictions on liberty, rely heavily on economic concepts such as decentralization, anti-paternalism, and externalities. It is striking that Mill, although writing many decades before Hayek and Friedman, fleshed out a deeper and more enduring defense of liberty than they did.

Mill is also the only GOAT contender to have served in Parliament or any other major legislative body. He made plenty of parliamentary speeches and made many parliamentary votes, confronting most of the major issues of his day. We therefore can test his wisdom, and his courage, in a way that we cannot with the other GOAT contenders. I'll return to this assessment, but for now I'll just say this: whatever we think of Mill, we can know it with greater certainty, and find it backed by greater evidence, than for any of the other GOAT candidates.

My two favorite Mill works are The Subjection of Women and Autobiography, but the former is most relevant to our task at hand, so I'll consider that along with Mill's important work on logic. Those make a nice paired introduction to understanding the sublime mind of John Stuart Mill.

The Subjection of Women, and Mill on logic and inference

Mill's core argument in this short 1869 book is that the position of women in society could be far higher than what any society of his time has seen to date. He starts by claiming that the legal subordination of women is unjustified, and should be replaced by complete equality. Circa 2023 that may sound a little ordinary, but it was a challenging view to defend at the time, as Mill

understood. The quality of Mill's argumentation was remarkably high, the book also provides a useful window into how we should think about social problems more generally. It also shows how Mill integrated his social analysis with a broader understanding of philosophy and in particular epistemology. Most of all, Mill is skeptical of what we can learn from observing the near-constant facts of history, and he believes we must assign a primary role to ethics and also reason in treating these issues.

Mill's very first argument shows the obstacles he is facing. He realizes that the attachment to the idea of gender subordination – the rule of men over women – is based more on feelings than on hard evidence for its superiority. That in turn makes persuasion difficult. If one factual argument is batted down, defenders of gender subordination will seek other grounds for their beliefs. Mill showed an early understanding of confirmation bias and biased belief formation, topics that ascended in behavioral economics only much later.

Mill then turns to the question of what kinds of knowledge we have about gender equality. He argues correctly that previous societies have been based largely on the greater physical strength and force of men, either directly, or through an indirect series of ruling decisions, ultimately backed by force and whose outcomes are determined by the greater vulnerability of women, physically and otherwise. Male dominance thus does not embody a wisdom of the ages, but rather it is the result of coercive processes that we should be highly skeptical about.

In essence, Mill is arguing that the large number of societies we observe, all based on male dominance, aggregate a remarkably small amount of information about the proper state of gender relations. At least for this one issue, we can learn remarkably little from history, other than to observe that coercive male dominance has been to date universal. He suggests also that Victorian England is sufficiently far removed from brute force in daily life that most people have forgotten

the coercive legacy of gender relations. Yet the laws of marriage in practice keep much of that coercion in place, for instance by assigning all property rights to the husband, and by making divorce very difficult for the wife. Mill went to great pains to remind his audience that gender relations in Victorian were nothing close to an equal bargain. Mill wrote: "...people flatter themselves that the rule of mere force is ended... They do not understand the great vitality and durability of institutions which place right on the side of might..."¹⁶⁸

You can think of this section of Mill as responding to the historicism of Burke and preemptively looking forward to Hayekian perspectives as well. If greater gender equality is so wonderful, why haven't we seen it yet? Why hasn't it survived or evolved as part of any spontaneous order up through Mill's time? Unlike today's more politically correct views, Mill recognizes just how great a challenge those questions are to his argument. Today we are used to arguing for greater gender equality as a very familiar topic, but epistemically – especially in the time of Mill – what are our reasons for believing greater gender equality is even an option on the table? Mill was telling us that previous history aggregates very little information because there is so little variation in the historical data, due to the greater physical and later the greater legal force of men.¹⁶⁹

Most of all, I think of Subjection of Women as a searching investigation of what we can infer from history, and what kinds of information and historical variation would be needed for history to be a useful source of knowledge. When it comes to most histories of economic thought, the primary questions concern theories of rent, population, trade, and so on. But one of Mill's greatest contributions was his deeply sophisticated approach to evidence and inference. That focus appears quite prescient in the empirics-obsessed, causal inference-obsessed economics of

¹⁶⁸ Mill (1975 [1869], p.433).

¹⁶⁹ These arguments are outlined most clearly, and at length, in chapter one of Subjection.

the 2020s, though for a century and a half or more a lot of Mill's work simply seemed orthogonal to economics as it had been developing. But "social science knowledge is all about inference" is a point Mill understood remarkably well, with only Keynes being a rival in that regard.

Mill makes further and yet subtler points about inference. He notes that men not only wish to rule over women, but they desire that women love and esteem them, or at least tolerate them. A strategy of brute force therefore will not suffice to achieve those ends, not in the way that it might work on slaves. Men therefore must work overtime to persuade and educate women into their roles of subservience. Society, in Mill's view, thus is suffused with a kind of false consciousness, much of it held by the women themselves. The men, through their very positions of dominance, have managed to control the messages and ideas of their societies, and those messages typically have communicated the supposed justice of gender inequality. Mill is no Marxist, but he shares the notion that power comes first and ideas second, and that ideas subordinate to power structures are not to be trusted. Furthermore, the power of men gives them the ability to de facto collude in a manner that women did not have. The problem of women is not only that they are physically weaker, but that physical weakness, through a historical heritage, gave rise to laws and conditions that mean each individual woman is confronting the entire authority of men as a collective. From start to finish, Mill's account of the greater power and influence of men outlines the social science mechanisms underlying those inequalities.

Another major point of Mill, outlined in chapter one of Subjection, is that we do not really know women, and women do not really know themselves. They are taught from the beginning that they are so different from men, so much more concerned with affection and family, and so much less interested in achievement. Mill is clear on this point: "I deny that any one knows, or can know, the nature of the two sexes, as long as they have only been seen in their present relation to one another... What is now called the nature of women is an eminently artificial thing – the result of

forced repression in some directions, unnatural stimulation in others.” Inequality, for Mill, is thus fundamentally an epistemological problem on top of its injustices, a point that still does not receive sufficient attention. Unjust inequalities prevent us from seeing the true nature of things.¹⁷⁰

Mill notes that some men think they know women, because they have had affairs with some number of them. But actually they know those women only in very select and specific ways. In reality, most men know at best one woman in her entirety, namely their wives. In the worldview Mill puts forward, the sexes fundamentally do not know each other.¹⁷¹

Mill cites a recurring example throughout the book. He notes that Britain has had numerous Queens, but if those women had not inherited the throne they would not have been entrusted with the slightest of power, not even the vote. Because Britain has seen such Queens, and often prospered under them, including Mill’s own Queen Victoria, the notion of a Queen is accepted as a matter of course. Yet had there not been this previous history, the opponents of gender equality would have stated that a woman ruler is unimaginable, women are not up to the job, asked how we could possibly know that women can do this, and made all of the arguments they make against women in virtually all other avocations and responsibilities.¹⁷²

Lest you think that Mill is entirely politically correct, however, he does outline his own theories on how men and women are different. He rejects most accounts of gender difference on the grounds that women have fallen under different and indeed more oppressive environmental influences. Yet for Mill women are more likely to have practical talents, intuitive sagacity,

¹⁷⁰ Mill (1975 [1869], p.451).

¹⁷¹ Mill (1975 [1869], pp.454-455)

¹⁷² See, for instance, Mill (1975 [1869], p.490).

greater flexibility, and greater perceptiveness in human affairs. Most of all, “A woman seldom runs wild after an abstraction.” Women have the advantage of bringing depth and practicality to men’s ideas.¹⁷³

Later Mill also notes two central features of the social influence of women in his time: aversion to war and “addiction to philanthropy.” On these and other points your mileage may vary (as they say), but personally I regard the entirety of Mill’s tract as insightful.¹⁷⁴

Mill’s book is also a contribution to bargaining theory and economics of the family. In chapter two, he notes how much men have the upper legal hand but then analyzes how that shapes the intra-family bargain. Yes, women suffer all sorts of depredations, but his analysis is more far-ranging and subtler than merely noting the initial level of extreme injustice. Mill stresses that men (sometimes) have ties of affection and interest to their wives and children, and that mitigates some of their worst tendencies. Still, the complex resulting bargains are fraught with brinksmanship and manipulation. Men tend to invest in a kind of idealized selfishness, whereas women learn skills of retaliation and have to learn a kind of “counter-tyranny” to defend themselves and the interests of their children.

Mill spots yet another problem in intra-family bargaining. As mentioned above, Mill does not see men and women as identical in all of their intrinsic qualities. Mill also believed: “If women are better than men in anything, it surely is in individual self-sacrifice for those of their own family.” This form of self-abnegation is made into a feminine ideal, and the fact that women have a

¹⁷³ Mill (1975 [1869], pp.494-496, with the quotation from p.496).

¹⁷⁴ Mill (1975 [1869], p.531).

comparative advantage at self-sacrifice further weakens their hand in the despotism of the intra-family struggle.¹⁷⁵

If you were to compare Mill's treatment to Gary Becker's economics of the family pieces from the 1960s and 1970s, Mill seems the superior and more realistic analyst. Becker considers different assumptions about bargaining power, in settings where specialization of family tasks makes sense, for instance a primary breadwinner and a person in charge of rearing the children. But unlike with Mill, when you read Becker you do not learn very much about the operation of actual families, or the historical roots of current family structures.

If all this seems too far outside the scope of economics to you, keep in mind two facts. First, how well families operate is one of the most significant factors behind human well-being, and arguably for women more than for men. Second, Mill's peers and successors – even the emancipationists – did not have the same keenness of insight as Mill did, in part because they had not done comparable studies of economics.

While we are on the topic of family, if you ask where Mill differs from Malthus, it is that he understood birth control better, and – unlike Malthus – he realized that a world with plenty of institutionalized birth control would not be as depraved as a London brothel. Mill was afraid to spell this out explicitly in his Principles, due to the implicit censorship of the time, but as his career progressed he held his belief in the importance of birth control firmly. When Mill died, it was his tolerance for birth control and general lack of religion that created most of the controversy concerning his reputation.¹⁷⁶

¹⁷⁵ Mill (1975 [1869], p.476).

¹⁷⁶ On birth control see, for instance, Hollander (1997, p.948). On the disputes after Mill's death, see Stack (2011).

Furthermore, Mill had a sense of how the relations between the sexes would evolve once women had full legal equality. For Mill, men would be enlightened, they would become less promiscuous, and their sexual norms would move much closer to those normally associated with women. So if you are wondering whether society would evolve into a huge London brothel, à la Malthus, Mill expected a nobler outcome. Perhaps that sounds a little dubious to the contemporary reader, but if you look at the data on highly educated Western couples we see relatively low rates of divorce and adultery, including from the men. These men seem to accept increasingly feminized notions of their responsibilities to their families and to their spouses. Along these lines, Mill, while he professed some uncertainty, did not think that true monogamy was an absurdly unrealistic goal. For Mill, as opposed to Malthus, there is less original sin and more room for enlightenment and the powers of the human mind.¹⁷⁷

Mill's Subjection of Women is best understood if we treat it as an applied study on Mill's earlier work on logic, as is best represented by his two-volume study A System of Logic, first published in 1843. In fact, the work on logic is essential for understanding Mill's corpus. Mill himself thought that, along with On Liberty, his two-volume set on logic would prove more durable than anything else he would do, and he devoted much more time to it than he did to his Principles of Political Economy, another very long book. In 1831, when he was twenty-five, Mill wrote in a letter that "...the only thing that I believe I am really fit for, is the investigation of abstract truth, and the more abstract the better. If there is any science which I am capable of promoting, I think it is the science of science itself, the science of investigation – of method." That didn't quite turn out to be true, but it is correct to think of improved intellectual method as the underlying theme behind Mill's varied investigations.¹⁷⁸

¹⁷⁷ See Reeves (2006, p.437).

¹⁷⁸ See McRae (2006, p.xxi), and for the quotation see Robson (2006, p.xlix).

A System of Logic covers many different topics, but for our purposes the most important discussion is Mill's treatment "Of the Four Methods of Experimental Inquiry," sometimes called "Mill's Methods" and indeed receiving their own Wikipedia page. Mill outlines different manners in which causes and effects might be correlated, or not, and what we can infer from such patterns, and how difficult it can be to sort out actual cause and effect from the data. He refers to the "direct method of agreement," the "method of difference," "joint method of agreement difference," the "method of residue," and the "method of concomitant variations," all as ways of trying to make correct or at least better inferences from the data.

I'll spare you the details on the full argument, but in essence Mill was trying to figure out how to do causal inference econometrics, but with words only. That enterprise was doomed to fail, but it gives us insight into what Mill thought was by far the most important question in social science, namely causal inference when faced with complex underlying chains of cause and effect. For Mill, everything is what we would now call "an identification problem," and this understanding is clearest in Mill's chapters "Fallacies of Generalization" and "Fallacies of Ratiocination." Mill also serves up a remarkably on-target discussion of how the different nature of social science problems, and their possibly greater complexity, can lead to identification problems that are not necessarily present in the natural sciences – see his chapter "Of the Chemical, or Experimental, Method in the Social Science." That entire approach is remarkably 2020s in orientation, and you won't find earlier history of thought books giving Mill much if any credit for this.

In a funny way, Mill was ahead of Milton Friedman in his understanding here. Friedman knew much more statistics, but in his economics he often presented causal inference as fairly straightforward. In his Monetary History of the United States, co-authored with Anna Schwartz, the reader does get the impression that the historical correlations, and ordinary least squares

techniques, do in fact show that the money supply is a central driver of nominal income, given the relative stability of money demand. Later, the real business cycle theorists were to challenge that inference, and suggest that often it was income that was causing the money supply. That is a kind of complex challenge Mill seemed quite comfortable with in A System of Logic, whereas Friedman and Schwartz assigned higher power to common sense approaches to cause and effect.¹⁷⁹

For all of his obsession with causal inference, Mill however did not come close to stumbling upon econometrics or modern statistics, or even a nascent version of it. Partly this was a matter of timing, as econometrics was just beginning as Mill was coming of age. Least squares methods were being used in astronomical research and they entered the social sciences with the work of the Belgian Adolphe Quetelet in the late 1820s. Quetelet also introduced the idea of the “average man” and the fitting of a distribution. Poisson, Cournot, and others made further contributions, typically in the French-speaking world, but those contributions were not yet central to scientific understanding as a whole, certainly not in Britain. Advanced statistics as a method was not incorporated into British economics until the work of William Stanley Jevons in the 1860s and then slightly later by Francis Ysidro Edgeworth, and then came developments from Galton and Pearson and the history of modern statistics as we know it. Mill was still active in the 1860s up through his death in 1873, but he was serving in Parliament and engaged with other projects.

¹⁷⁹ Mill’s System of Logic also was an important source for pioneering the notion of the subconscious and unconscious reasoning. Mill argued that we used subconscious mental processes, not just to perceive feelings as earlier thinkers had indicated, but also for the purpose of drawing inferences and making judgments. In this regard Mill was a precursor of modern cognitive science and also, along the way, Hayek’s The Sensory Order, discussed in the previous chapter on Hayek. On all this, see Reed (1997, p.131).

Mill's corpus of writings never indicate that he had the quantitative sophistication to be an early adopter or even appreciator of econometric methods.¹⁸⁰

Now, to tie this interest in method back to Subjection of Women, the real world of Mill's time showed very little variation in gender equality, namely that women always were subordinate. From that lack of variation in the data one had to infer the nature of the true underlying non-coercive equilibrium between men and women, however difficult such inference might be. That is exactly the kind of problem of causal inference that Mill was obsessed with and saw through in his work, both at the methodological and the policy levels.

The central thrust of Mill's thought

Mill's central contribution was having produced a tripartite defense of a free society, based on the ideas of character development and also consilience, the latter meaning that alternative perspectives brought together may point in a broadly similar normative direction and thus legitimize that direction. Mill was a believer in liberty, as outlined in his classic On Liberty; Mill was a believer in utilitarianism, as outlined in his Utilitarianism; finally, Mill was what I call a "civilizationist," as reflected in his corpus of writings generally but presented most specifically in his 1836 essay "Civilization." A civilizationist, quite simply, is one who believes that the carrying on and extension of civilization is a fundamental value.

Mill understood well that the perspectives of liberty, utility, and civilization do not always coincide, and there is a large academic "cottage industry" finding supposed contradictions and

¹⁸⁰ On the roles of Jevons and Edgeworth in developing and promoting British econometrics, see Stigler (1999, chapter three, chapter five). On the early history of statistics and mathematical empirical social science more generally, see Stigler (1986).

tensions in Mill's work. For instance, why are there so many exceptions to the liberty principle in On Liberty? How should we proceed when liberty and utility clash? The tensions are real, but Mill had a means of resolving them. Insofar as individuals engage in sufficiently sophisticated character development, these differing perspectives all would tend to converge. Character development would make the case for liberty stronger as progress continued, and it would make utilitarian standards more coincident with the general elevation of mankind, as what people wanted, and what made them happy, would coincide more directly with beneficial and virtuous outcomes. Finally, character development would make civilization more sustainable and also more beneficial.

If you are looking for a “smoking gun” for reading Mill through the light of character development, try this passage from his Considerations on Representative Government: “The first element of good government, therefore, being the virtue and intelligence of the human beings composing the community, the most important point of excellence which any form of government can possess is to promote the virtue and intelligence of the people themselves. The first question in respect to any political institutions is, how far they tend to foster in the members of the community the various desirable qualities, moral and intellectual, or rather (following Bentham's more complete classification) moral, intellectual, and active. The government which does this the best, has every likelihood of being the best in all other respects, since it is on these qualities, so far as they exist in the people, that all possibility of goodness in the practical operations of the government depends.”¹⁸¹

Mill's On Liberty starts with the notion that choosing the proper rules of conduct is the fundamental question. Mill favors principles of individual autonomy, against both governmental coercion and public opinion, but he is too good an economist to ignore negative externalities, and

¹⁸¹ See Mill (1977, p.390) [1865].

so there are exceptions to the liberty principle, including government restrictions on the sale of poisons, prohibition of excessively risky behavior, parents not wishing to educate their children, and in general cases where individual action imposes significant negative costs on other people.

Mill's perspective on liberty is remarkably contemporary, though it baffled modern readers until recently. Mill absolutely worries about government oppression of human liberties, but he is no less concerned about the tyranny of conformist custom, one branch of which is what we nowadays call "cancel culture." On this point Mill could not be clearer. For instance, near the beginning of his essay he writes "There is a limit to the legitimate interference of collective opinion with individual independence: and to find that limit, and maintain it against encroachment, is as indispensable to a good condition of human affairs, as protection against political despotism." Or how about this?: "The worst offence of this kind which can be committed by a polemic, is to stigmatize those who hold the contrary opinion as bad and immoral men." As a careful reader of Tocqueville, Mill frequently worried about human mediocrity and conformity, and how rapidly a free society could slip into conformist norms.¹⁸²

Throughout the exposition, Mill stresses liberty as a path to character development. Freedom of thinking, for instance, is "...indispensable...to enable average human beings to attain the mental stature which they are capable of." Furthermore "Among the works of man, which human life is rightly employed in perfecting and beautifying, the first in importance surely is man himself." And thus liberty is all-important to attain this elevation of mankind, again subject to some exceptions. As Mill's biographer Nicholas Capaldi put it: "Mill would emphasize the morally transforming effect on character of the willingness to examine every side of every argument."¹⁸³

¹⁸² For the longer quotation, see Mill (1977 [1869], p.220), and p.259 for the second quotation.

¹⁸³ For the first quotation, see Mill (1977 [1869], p.220), for the second see p.263, and most notably and at greatest length see pp.266-267. And see Capaldi (2004, p.8).

Mill's long essay Utilitarianism fits into the same general picture. In that work Mill considers the case for elevating human well-being as the final standard of evaluation, drawing of course on Bentham and the earlier influence of his father James Mill. Yet well-being alone as a standard does not seem to suffice. The central problem in this long essay is how we should weigh off "the highest pleasures" vs. "the lower pleasures," or pushpin vs. poetry to reference Jeremy Bentham. Mill was too much a humanist and scholar to wish to see humans become happy by rolling around in the mud or by drinking to excess or by choosing what might be considered non-noble paths.

Mill makes a number of philosophic moves in response to the problem of evaluating preferences, for instance by considering whether higher-order pleasures are going to be intrinsically better at producing happiness. But his final answer is a normative one: if individuals undergo a process of mature character development, they will arrive at a greater harmony of interests between their happiness, their preferences, and the higher-order preferences they will grow into. For a person with sufficient character development, the higher-order preferences are what make that individual happy. Character development is thus something we should strive for because, among other reasons, it will make moral philosophy fully coherent and give us a consistent picture of what to strive for, with all major values working in its favor.

And if you have any doubt about the import of character development in Mill's thought, he uses that same concept to close his massive work on method, namely A System of Logic. He refers to a life with "higher meaning" with more "highly developed faculties" as what makes progress worthwhile.¹⁸⁴

¹⁸⁴ See Mill 2006 [1843], and for a discussion see Kitcher (2023, p.6).

The central role of character development in Mill's corpus in part explains why his thought has a "squishy" component. We just don't have great social science theories to analyze character development, and that was true in Mill's time as well, and Mill seemed to understand that. He also realized (to say the least) that not everyone in Victorian England had the most exalted preferences. His interests in the humanities and in character development were overlapping, and for Mill the humanities were a missing piece of the puzzle that could help fill in the empty spaces in the argument for a free, happy, and civilized society.

This emphasis on the humanities makes Mill unique among GOAT contenders, and unlike some of his ideas it puts him at variance with economic and social science thought today, which typically has more of a scientific slant. Of the other GOAT contenders, only Keynes seems to have had a comparable interest in the humanities. Unlike Mill, I read Keynes as more worried about the quality of the British elite than the general public, nonetheless Mill and Keynes share common worries about character development. Adam Smith too had this worry, when he wrote about the stultifying effects of the growth of the division of labor in commercial establishments.

"Civilization" is an essay well-known to Mill scholars, but it has not become central to either historians of economic thought or moral or political philosophers, and it is not broadly known even to most well-read scholars. In this essay Mill presents civilization as a concept representing human improvement. A belief in human well-being is also a belief in civilization, and we should think of the latter as a carrier of the former. It makes perfect sense to ask how a policy or an idea will impact civilization, and we will see that Mill took that approach very seriously when analyzing British rule in India, a practical problem that he dealt with for decades in his job. Mill does not flinch from comparing "civilization" to "savages" and "barbarism," a controversial move in academia today but a difficult move to avoid when comparing broad outcomes across multiple societies, even if the chosen words are too slanted.

The most interesting part of “Civilization” comes from Mill’s predictions about modernity, which seem to have been influenced by his reading of Tocqueville’s Democracy in America, a book he reviewed twice (once for each volume) and appreciated at a deep level. For Mill, as wealth and the division of labor progress, each person becomes more dependent on society. That in turn brings a greater mildness of manners and a taming of the human spirit. Desires become directed toward wealth, the remaining universal, rather than political ambition per se. The very wealthiest people, who have most of their desires satisfied, or who cannot plausibly earn more, find that they lose their energies and desires altogether, perhaps reflecting Mill’s vision of much of the British aristocracy (he did not have Elon Musk in mind).

In this setting, pain becomes more and more unthinkable, there is “much less of the heroic,” and people strive less. Especially for the refined classes, there is “moral effeminacy, an inaptitude for every kind of struggle.” Both great virtues and great vices would be “dried up.” There is an overall “growing insignificance of the individual,” and literature in turn is suffering. With so many authors and so many words written, and such short attention spans for the written word, the quality of writing is going to be “more and more ephemeral” and very low [section 4]. Mill of course sounds like the contemporary critiques of social media. On the upside, people are much more “amiable and humane” and life is much more comfortable and less stressful, major pluses indeed.¹⁸⁵

For Mill, these effects on character are of immense significance, and the remainder of his essay is devoted to obsessively considering how civilizations might improve. In that context, he sees

¹⁸⁵ See Mill “Civilization” (1836), section four for these key parts of the analysis, with the discussion of writing coming in section five. You also can find a good one-page summary of Mill’s views on civilization in his essay on Coleridge (Mill 2006 [1840], p.123).

two primary remedies against the possible enervation of individual character in civilized circumstances. First, Mill argues for a greater degree of individual cooperation and combination, including labor unions, voluntary cooperatives, and guilds, so that individuals will be and also will feel more empowered. Second, and more importantly for our purposes, Mill sees improving British education as the main means of strengthening intellect and character. Mill wished to root out dogmatism, the mentality of disciples, and the religious discriminations practiced at Oxford and Cambridge. He also favored extensive instruction in ancient literature, which he believed showed great minds and was conducive to the shaping of great minds today (a partial self-reference of some kind? Mill had studied many of the classics of the ancient world by ages eight to nine). Logic and philosophy of mind also should be priorities for British education, not coincidentally also strong areas for Mill's own education.¹⁸⁶

For Mill, these educational methods are first and foremost about character development. Finally, Mill also wishes to restructure the grounds upon which reputation and accolades are awarded:

“We cannot undo what civilization has done, and again stimulate the energy of the higher classes by insecurity of property, or danger of life or limb. The only adventitious motive it is in the power of society to hold out, is reputation and consequence; and of this as much use as possible should be made for the encouragement of desert. The main thing which social changes can do for the improvement of the higher classes – and it is what the progress of democracy is insensibly but certainly accomplishing – is gradually to put an end to every kind of unearned distinction, and let the only road open to honour and ascendancy be that of personal qualities.”¹⁸⁷

¹⁸⁶ On Mill's reading of the ancient classics, see Capaldi (2004, pp.7-8).

¹⁸⁷ For this entire discussion, see Mill (1836), section six.

By the time we get to the end of “Civilization,” we again can see the thread tying together Mill’s major works, namely *character development*. We have seen three arguments for a free, open society, namely the argument from liberty, the argument from utility, and the argument for civilization. Each, taken on its own terms, is incomplete. All three arguments succeed, and become consistent and mutually reinforcing, when character development is proceeding in a positive direction. The Mill argument for a free, open society thus has a consilience angle and it also has a “voluntarist” and exhortative angle, directed at the reader herself. Act morally, and develop your character, not only for your own good but also so that morality can become a fully coherent project and so freedom may reign.

I find Mill’s approach to a free society better than that of either Friedman or Hayek. Friedman typically would produce utilitarian arguments, yet without facing up to any of the major philosophical problems with utilitarianism. He also tended to lunge into “liberty talk” when he felt like it, but as presented earlier he never explained why liberty should be such an important value, or what liberty was supposed to mean. Hayek had a very complicated approach, based on ideas of spontaneous order and institutions that are the product of human action but not of human design, but he was never able to spell out a coherent normative standard, or account for his ultimate normative reliance on some form of utilitarianism, nor did he have Mill’s sophistication in moral philosophy.

So on the #1 question of social science, Mill is winning hands down.

Chips from the workbench

Mill is insanely strong in this category, so strong that you might wish to argue the chips are all gems.

If you read or even just peruse what is now Mill's 33-volume set of writings, his combination of breadth and depth is astonishing. The topics range from the punishment of children, land reform, wife murder, Poland, religious skepticism, electoral reform, Grote's History of Greece, economic issues of all sorts, notes on walking tours of England, botanical writings, and much much more. Almost always Mill has something smart and insightful to say on each of those matters, and overall it is remarkable how little so much of the material has aged. Mill also was a keen observer of the United States, having studied and reviewed Tocqueville, but adding observations of his own. Perhaps most of all, I was surprised by how closely Mill engaged with French history, French current affairs, and the French historians; those writings taken together would span several volumes on their own.¹⁸⁸

The single best look at Mill as economist, in the narrower sense of that term, is the collection Some Essays on Unsettled Questions in Political Economy, all pieces from the earlier part of Mill's career. He is uniformly sharp, insightful, and keeps his eye on the most important questions, rather than obsessing over models for their own sake.

Mill's "Of the Laws of Interchange Between Nations; and the Distribution of the Gains of Commerce among the Countries of the Commercial World," from that early set of essays, was an early look at how the gains from trade, or for that matter trade restrictions, would be distributed

¹⁸⁸ For Mill on the United States, see for instance "State of Society in America" (1977) [1836].

across trading countries. Mill did not have the mathematics or the marginalism to solve this problem in the modern manner, but this essay is a considerable advance over Smith or Ricardo. It is also a classic Millian insight, still relevant in our time, to understand that the argument for free trade must consider its distributional consequences.¹⁸⁹

On macroeconomics, Mill was uniformly strong. Although he is not seen as a major innovator, he regularly came close to stating the truth in clear, unequivocal terms, while in typical fashion leaving room open for multiple scenarios to hold. No economist before Mill had managed this, as for instance both Ricardo and Malthus had stressed single, particular approaches to macroeconomics rather than mastering the whole picture.

Mill's 1829 essay "Of the Influence of Consumption on Production," reproduced in that volume, is one of the best single pieces ever written on macroeconomics. Most of all, Mill outlines why a demand-based macroeconomics could be relevant in the first place; for all the important contributions of Malthus, he never quite succeeded in pinning down the entire story. In Mill's account, the division of labor is a fundamental fact of economic life, and division of labor mandates (in most cases) some investment in excess capacity. For instance, if you are a tailor you need to keep around all sorts of specialized equipment to perform tailor services, but when demand for tailor services is low, that same equipment cannot be costlessly repurposed toward other ends. By investing in excess capacity in this manner, to exploit productive efficiencies, economies make themselves vulnerable to demand shocks.

Mill even outlines what we today would call the difference between fixed and marginal costs. For instance, he writes of: "...the large sum often given for the goodwill of a particular business. Another is, the large rent which is paid for shops in certain situations, near a great thoroughfare

¹⁸⁹ See Mill (2006 [1844]), with the trade essay on pp.232-261.

for example...” Cost structures of that kind mean that merchants will be very happy to sell extra units of their product for a profit and that brings us back to the positive role for demand shocks. Mill of course did not deploy “the M word” – marginal – but it does seem he understood the concept. The importance of imperfect competition for demand-based macroeconomics was a kind of underground tradition throughout much of the 20th century, reemerging in import only in the late 1980s with the work of such economists as Blanchard and Kiyotaki. But Mill was there a long time ago, and with utter clarity.¹⁹⁰

Mill, however, also understood that demand-based macroeconomics was not the sole end-all and be-all of analysis. He grappled with the Say’s Law debate, namely the claim that market demand typically comes from income generated from production, or the supply side. Mill fully appreciated this point, and he recognized that often “demand” really is just a reflection of “supply.” Yet Mill also articulated the point, later connected with Keynes, that when there is a general increase in the demand to hoard money, a boost in supply does not in general translate into a commensurable boost in market demand. On top of all that, Mill recognized that these states of affairs had to be transitory rather than permanent, and at some point the “general glut of commodities,” as it was called by the classical economists, would be corrected rapidly.¹⁹¹

Voila! This was a true tour de force, and I wish more economists today had a working grasp of Mill’s basic points, now almost two hundred years old yet hardly ever expressed with greater clarity or persuasiveness.

¹⁹⁰ The Mill quotation is from Mill (2006, p.268 [1829]). On more recent demand-side macroeconomics with imperfect competition, see for instance Blanchard and Kiyotaki (1987), and for a broader-based survey see Dixon and Rankin (1994).

¹⁹¹ For Mill on Say’s Law and the merely temporary nature of insufficient aggregate demand, see Mill (2006 [1826], pp.276-277).

Mill's views on fiscal policy varied over time, but later in his career when he feared economic stagnation, he adopted a stance remarkably similar to that of Larry Summers in more recent times. Mill argued that in the wealthier countries what was scarce was fertile land (**NB**: this is before nitrogen fertilizer), not capital. Government spending financed by borrowing would not crowd out the capital stock, but rather, if done wisely, could boost economic rates of return. He wanted those expenditures to be devoted to “the industrial rejuvenation of Ireland, or a comprehensive measure of colonization or of public education.” Whether or not you agree with the “secular stagnation” doctrine, it is remarkable how early Mill hit upon exactly the same intuition and derived the conclusions correctly, once again showing his remarkable powers as an intuitive economist.¹⁹²

On monetary policy, the story is again complex. Early Mill was skeptical about public spending to counter depressions, but very much favored monetary policy toward that end, a common monetarist view. Mill favored a gold standard, yet he thought the reserve ratio should be allowed to vary in the interests of macroeconomic stability. He worried greatly about speculation as a cause of business cycles, and identified “overtrading” as a fundamental cause, namely that dealers make too many purchases when they see signs that demand might be heating up, boosted by the extended issue of mercantile paper and credit. The eventual result is a business downturn. This combination of what was later to morph into the theories of Hayek and Minsky was in fact a pretty good description of many 18th and 19th century business cycles.¹⁹³

For the best look at how Mill was able to understand different perspectives on a topic, try his classic essays “Bentham” and “Coleridge,” which should be read together as a pair. They go well

¹⁹² See Hollander (2015, pp.329-330).

¹⁹³ On early Mill on monetary and fiscal policy, see Hollander (2015, pp.333-334). For Mill's views on trade cycles, one good essay is “Paper Currency and Commercial Distress” (Mill 2006 [1826]).

beyond economics, but are critical for understanding Mill as an economist and as a thinker more broadly. These dual essays, to this day, still represent the most sophisticated perspective on a form of neo-Benthamism today, namely Effective Altruism as a movement.

Mill understood the merits of Bentham's contributions. He referred to Bentham as "the great questioner of things established." Bentham paid little heed to authority per se, and he was willing to wade into virtually any area and apply his utilitarian wrecking ball, so to speak. He embodied the questioning spirit by taking a variety of established technical systems and asking the simple question of whether they were well-suited to meet practical ends. In Bentham's England, very often they were not, and few were more influential in pointing this out than Bentham himself, noting that much of Bentham's influence came through the career of Mill himself. Toward this end, Bentham was a master of considering complex systems and breaking them down into their simpler constituent parts, a method that for Mill gave Bentham enormous insights in some regards but denied him a deeper understanding in other matters. Mill argued for instance that Bentham's understanding of self-education and character development was absent.¹⁹⁴

Bentham had yet further serious limitations. He was not a great philosopher or metaphysician, he was best as a critic, and he was best at the simple and practical. He often did not understand the potentially deeper wisdoms embodied in societal institutions, as the poet Coleridge was so well-suited for. Bentham was poor at self-education, or understanding self-education, and he was not very good at constructing complex visions of synthetic truths.

Mill makes the perceptive remark that we are very fortunate that so much of Bentham's influence came from his examination of British laws, an area where a "simple" critic can in fact see many

¹⁹⁴ See Mill (2006 [1840], and p.78 for the brief quotation, and (2006 [1838], p.98) on Bentham on self-education.

absurdities and set many things right. There the existing order had been so unjust, so poorly conceived, and so screwed up that an energetic person, full of ideas about incentives, even dogmatic ideas, could have a major beneficial impact. Mere skepticism about established practices in this area, combined with crusading zeal, could indeed bring a high social return.¹⁹⁵

Coleridge, for Mill, was the mirror opposite of Bentham's strengths and weaknesses. Whereas Bentham did not give character development or give it a role in his theories, for Coleridge the concept is central. The cultivation of taste is a central enterprise of mankind as is the development of the imaginative faculties; Coleridge was a master of the aesthetic and sympathetic aspects of human life, and he understood that many of the most important truths were non-legible, or perhaps even mystical. Not everything could be calculated in terms of a rationalist technocracy, to borrow some modern terminology. In his own way, Coleridge like Bentham was a questioner of things established, but he placed in doubt Bentham's own tradition and indeed that of the Enlightenment and classical economics more generally.

Mill describes Coleridge's thought, and indeed "Germano-Coleridge doctrine" in the following terms: "It expresses the revolt of the human mind against the philosophy of the eighteenth century. It is ontological, because that was experimental; conservative, because that was innovative; religious, because so much of that was infidel; concrete and historical, because that was abstract and metaphysical; poetical, because that was matter-of-fact and prosaic." On the downside, however, Coleridge was not a mere complement to Bentham, but had his own weakness, including writings on political economy that were "like an arrant driveller."¹⁹⁶

¹⁹⁵ See Mill (2006 [1838], pp.98-105) on jurisprudence and also the virtues of Bentham's method.

¹⁹⁶ For the quotation, see Mill (2006 [1840], p.125), and p.155 on Coleridge's political economy.

At this point you may be thinking we are getting pretty far away from economics. After all, this is about the economics GOAT, not the “best thinker” GOAT. Well, if you wish to ask which of our candidates had the best and deepest sense of the limitations of economics, and the broader role of economic and utilitarian reasoning in human thought, the hands-down winner is Mill and that in turn boosts his GOAT credentials for economics.

One of Mill’s strongest interests was in Thomas Hare’s “personal representation” voting scheme, outlined by Hare in his 1859 work A Treatise on the Election of Representatives, Parliamentary and Municipal. In a letter Mill wrote: “I think it both a monument of intellect, and of inestimable practical importance at the present moment.” And in a letter to Hare himself, Mill wrote: “The more I think of your plan, the more it appears to me to be *the* great discovery in representative government.”¹⁹⁷

The Hare proposal, in a nutshell, was designed for an election with multiple winners and it allowed voters to list candidates in order of preference. Once a candidate had enough first-place votes to secure election, the surplus ballots for those candidates are transformed, namely by turning the second-place choices on those ballots to become now first-place choices, thereby elevating a new set of candidates. That process would continue until all seats were filled.

Maybe that system could work, and indeed a version of it has been used in Ireland, Australia, and now in the New York City mayoral elections. But why exactly is it supposed to be such a brilliant idea? Mill thought that such a system would represent all factions of opinion, including the working class, but his view ran deeper than that and encompassed a moral understanding of

¹⁹⁷ See Kinzer, Robson, and Robson (1992, p.105 on both the plan and Mill’s correspondence about it). For a more direct statement of Mill on democracy, and voting mechanisms, see his *Considerations on Representative Government*, Mill (1977) [1865].

what democracy ought to be. If elected representatives are matched to groups of voters who had them as first choices, or at least high choices, representatives will be matched to voters who appreciate them most, and voters will be matched to representatives who appreciate them most, much like a well-ordered marriage or friendship. For Mill, this political pairing of appreciations and excellences was a framework for building up both democratic accountability and healthy discourse.¹⁹⁸

Another way to put the point is that Mill, in his approach to voting mechanisms, was once again concerned with character development, the central idea in his thought. Voters needed to have their characters developed *as voters*, and not just as human beings. And if you are seeking to induce people to improve their information and their public-spirited conscientiousness, soliciting the entire slate of their ordinary preferences was, for Mill, one ready way to do so. The ranked-choice voting would induce them to have fuller and better-thought out preferences about political candidates and also political outcomes, to the eventual benefit of democracy and of life more broadly.

Mill in Parliament

Mill is the only GOAT contender to have held significant elected office, winning a Parliamentary election in the city of Westminster in 1865 and then losing it – coming in last of three major candidates – in 1868. For Mill, running for Parliament was an obviously moral and also prudential thing to do. If he was in fact England's greatest thinker at the time, why should he not be sitting in Parliament and debating legislation? He hoped to raise the moral tone and intelligence of public life. But this proved to be only a transitory phase in Mill's career. As he put

¹⁹⁸ See Kinzer, Robson, and Robson (1992, pp.105-109).

it himself, he would not have been surprised if he had not been elected at all, what was unusual (in his view) was that he first won a seat and then during the next election was turned out of office and decisively so at that.¹⁹⁹

The most striking feature of Mill's parliamentary career is just how closely it matched his writings and his moral views. It is impossible to accuse Mill of anything but the utmost sincerity. The major issues he focused on were electoral reform, women's suffrage, Ireland (including on the secular university, favored by Mill, who opposed the denominational approach), and Jamaica, with Mill, as a member of the Jamaica committee, involved in a campaign against Governor Eyre for misconduct. In the latter case, Jamaica was not a prior major interest of Mill's but external events, namely a rebellion and its brutal suppression, forced him to take an interest in the matter. Other lesser issues he considered were the death penalty (favored it), the right of search and seizure at sea when neutral vessels carry the goods of England's enemies, initiatives on metropolitan government (mostly failed), the malt duty and the national debt (he wished to limit the debt burden to be placed on future generations), and extradition procedures.²⁰⁰

The issues Mill ran upon were slightly different, but that is mostly because events changed the agenda, not because he was inconsistent. In a campaign letter he wrote, he argued for opening up suffrage to all literate and numerate men and women, abolition of all religious disabilities, a presumption of non-interventionism in foreign policy, control over military expenditures, opposition to the purchase of commissions, opposition to flogging except in response to crimes of brutality, and opposition to legal intervention in strikes. Overall it is striking, and appropriate for understanding Mill's emphases, that his campaign was not centered around economic issues.

¹⁹⁹ Much of the material of this section draws upon Kinzer, Robson, and Robson (1992), and on the background of Mill's election, see their pp.3-5.

²⁰⁰ See Kinzer, Robson, and Robson (1992, pp.5-6, passim).

And while he already favored Thomas Hare's "personal representation" voting scheme, and he did advocate for it in Parliament, he focused his energies on democratization more generally rather than that particular proposal, which stood little chance of being enacted.²⁰¹

Mill's speeches before Parliament show a remarkable sophistication, including in matters economic. For one example, consider Mill's address on capital punishment. You might in your mind have the mental category of Mill as progressive and therefore opposed to capital punishment. But Mill was a utilitarian first and a progressive second, and thus he offers a qualified defense of the practice.²⁰²

Mill's arguments are eminently practical, even if many moderns, myself included, disagree with them. He approaches punishment from a framework of optimal deterrence. For Mill, penal systems should specialize in those punishments that are *ex ante* most vivid and *ex post* least burdensome. For Mill, that combination describes capital punishment. He believes that potential criminals fear loss of life more than long imprisonment, as the former is a more vivid and easier to imagine fate. Whereas men in older times valued their lives too little, Mill thought in his time lives were being valued too much, and thus this was a useful lever to hang incentives on. At the same time Mill sees long prison sentences as less humane, a plausible view for his time whether or not you agree. Death seems so very bad to us, but once you die you are not suffering any more, unlike with long prison sentences.

Mill states that capital punishment, at least for heinous crimes is "...beyond comparison the least cruel mode in which it is possible adequately to deter from the crime."²⁰³

²⁰¹ See Kinzer, Robson, and Robson (1992, pp.41-42, 87, 106).

²⁰² All of this is taken from John Stuart Mill (1868), the speech sometimes being called "Use of the Death Penalty." Published in Mill (1988 [1868]).

²⁰³ See Mill (1988), p.267.

Along the way, Mill considers and discusses the heterogeneity of human motivation. Yes, some hardened criminals are not deterred by the death penalty, but in Mill's view nothing will deter them whatsoever. Mill also considers game theory and interactions. He seems to think the best argument against the death penalty is simply that some juries will refuse to impose it, and thus let off too many criminals with impunity. That again shows Mill examining this problem from every possible angle, though he concludes it is more likely that the death penalty being on the table makes the jury sit up and take more notice, leading to better verdicts. The irreversibility of death sentences surely is another factor, but Mill argued that the British system has plenty of protections for the accused. Mill admits the case for capital punishment is not so strong on the Continent, where trial rights are generally weaker and wrong convictions are more likely.

All of that he did in a speech before Parliament in 1868, the whole thing taking up a mere few pages. Yet it encompasses what later became Gary Becker's theory of optimal punishment, thinking about incentives at the margin, analyzing the properties of systems, and also behavioral insights about which incentives deter and the nature of suffering.

It is difficult from this temporal distance to know why exactly Mill was not reelected in 1868, but *The Times* suggested it was because general sentiment in Westminster turned against reformers. Moderation was becoming more popular and Mill was seen as partisan and rigid, and in any case better suited to being a writer. So when the vote was held the first place candidate received 7648 votes, the second place candidate 6584 votes, and Mill came in last with only 6284 votes, a substantial gap behind the leader.²⁰⁴

²⁰⁴ See Kinzer, Robson, and Robson (1992, p.3, and chapter eight).

The world again learned that economic and philosophic wisdom do not always mix with politics, and if nothing else Mill can be commended for sticking with his intellectual priorities. Furthermore, it was not obvious that Mill was especially effective in Parliament, and so it was better for the world as well to have him back as a writer.

Mill on India

I've already asked what kind of advice some of our other GOAT contenders might give to India (or to Chile, for Hayek), so the same question can be posed for Mill. With such a query, one immediately jumps into a thicket, as Mill was an employee of the East India Company for about half of his life. These were formative years, as Mill entered the Examiner's Office of the company in 1822 at the age of seventeen. He soon worked for the Political Department, and conducted a great deal of correspondence, most of all about the independent states and territories, which fell under British control to some degree but also retained some autonomy. During his thirty-five years of work on India for the Company, Mill drafted more than 1700 dispatches, and just before Parliament abolished the company in 1856 Mill was appointed to the position of Chief Examiner. So "Mill on India" is a significant topic to say the least. Furthermore, John Stuart Mill's father, James Mill, was a leading historian of British India and he worked for the company from 1819 until his death in 1836.²⁰⁵

Most of all, John Stuart Mill believed in the British empire, and he argued it was improving India's infrastructure, health care, and education, including through the investments of the East India Company. I think of Mill as favoring a kind of "tolerant imperialism," as it was described

²⁰⁵ On those details, see Harris (1964, p.186). For some representative sources on Mill and India, see Harris (1964), Zastoupil (1994), Jahn (2005), and Tunick (2006), and of course the Mill volume Writings on India (Mill 1990).

by Mark Tunick. That is, he saw British rule as an essential means to modernize Indian society, but he did not seek to obliterate Indian cultures, religions, or languages. Rather he sought to nudge the Indian territories in the direction of greater economic and moral development.

Mill saw India as having entered an age of stagnation, a picture originally painted by his father James Mill in History of British India and there was a good deal of truth to those claims. As political stability weakened in the eighteenth century and deindustrialization proceeded, Indian living standards were often stagnating or even falling. While it can plausibly be argued that British colonialism prevented India from responding to those problems, the core issues predated British rule and manifested themselves in the economic stagnation of China as well.

Mill thought that the unique achievements of British civilization could do a great deal of good for India, at least if rule was administered wisely. Mill also cited some significant negative features of Indian society, including infanticide, thuggee, sati, fraudulent witchcraft, and various forms of extortion, all of which he wished to see dwindle. He supported classical learning for India and wished to further the development of an Indian intellectual elite. And although Mill was one of the strongest advocates for greater democratization in Britain, he did not believe that places such as Egypt and China and India should have democracy at all points in time. In this regard Mill was not exactly “woke.” But he was not illiberal either: in his critique of British military intervention “A Few Words on Non-Intervention,” he argued that India was different because without British involvement it would be sheer despotism.²⁰⁶

In his report and testimony to the House of Lords, Mill put it bluntly: “The present constitution of the Indian Government, considering the great difficulties of the case, seems to me to have

²⁰⁶ See Tunick (2006, p.601, 609-610). On classical learning, see Zastoupil (1994, p.47). On Mill on intervention and India, see Mill (1984) [1859].

worked very satisfactorily.” Furthermore: “I do not think that India has yet attained such a degree of civilization and improvement as to be ripe for anything like a representative system.” Mill thought the way to make Indian rule more representative, at least for the time being, was to give British rulers in India more contact with intelligent Indian natives, not to set up a system of representative Indian government.²⁰⁷

When it came to land rights, Mill’s view on India was similar to his takes on Britain and Ireland, albeit with some different details. Mill was suspicious of landlords and their large, concentrated estates, and he thought that was one of the major problems facing the Indian peasant. He objected to how Britain had enshrined the power of such landlords and he thought that British attention ought to be directed to favoring those who worked on the land instead. He thus developed a series of proposals for land reform and splitting up large estates, somewhat akin to his proposals on English land tenure reform.²⁰⁸

Mill was largely correct here, even if his historical descriptions of Indian land rights were oversimplified. Still, he did not squarely face up to the larger question: why did the British empire and the East India Company have so little interest in pursuing better land policies and indeed better policies in general for India? Why was British rule, in all of its forms, investing so little in public goods production?

It is odd that Mill did not grasp the full extent of the structural problems here. He was a strong advocate for representative democracy as a means of accountability, and he did understand that the British government had neither the information nor the incentives to be held accountable for its performance in India. Yet, perhaps because of self-serving bias, he thought the East India

²⁰⁷ Mill (1990, pp.33, 51, respectively) [1852].

²⁰⁸ See Harris (1964, pp.188-190) and also Mill (1982) [1869].

Company finally had evolved to solve those problems. He argued that the Company was (in its final years) full of people who understood India and its problems (some of them taught by Malthus, of course). Second, the administration of India was carried on in writing, which puts everything on record and which makes colonial government entirely transparent, and to Mill those were important features of governance. Mill insisted that the Company should not be replaced by a colonial secretary of state, as was the arrangement for most other colonies. Insofar as the East India Company was experiencing problems with the administration of India, Mill saw the key issue as that of quality of personnel in the Company.²⁰⁹

It is instructive to consider Mill's dispatches on the numerous independent territories and principalities of India, above all Awadh, which was surrounded by territories under direct British rule. Awadh had emerged as an independent state in the 18th century as the authority of the Mughal empire declined. For Mill early in his career, up through the 1830s, bringing Awadh under direct British rule was clearly the best course of action, but over time he became more sympathetic to the view that it would be harmful to destroy the powers and legitimacy of the local authorities. Arguably Mill was reformulating the influence of Coleridge anew, most of all Coleridge's argument that the forces of permanence are a necessary offset to the forces of progress. Mill was thus pragmatic, and his views responded to the evidence before him, but still he never left the basic framework of believing the British had the will and capability of elevating India under a framework of coercive rule.²¹⁰

²⁰⁹ See Harris (1964, pp.191-192) and also Mill (1990) [1852]. Mill's clearest statement on the East India Company was perhaps in his *Considerations of Representative Government* (1977 [1861], pp.573-577).

²¹⁰ On these topics, see Zastoupil (1994, chapter four, especially pp.98-104, also p.140 and p.153).

Mill's shortcomings on India and on colonialism more generally are most readily illustrated in his pamphlet England and Ireland. Mill in his career had many laudable things to say about reform in Ireland, for instance identifying the critical issue of land reform and he understood the important role of education for Irish development. Yet he never fundamentally could drop his English perspective on the whole matter. There is a striking passage in the work: "The difficulty of governing Ireland lies entirely in our own minds; it is an incapability of understanding. When able to understand what justice requires, liberal Englishmen do not refuse to do it."²¹¹

That illustrates an underlying defect in Mill's thought which I understand as a misguided intellectual voluntarism. For one thing, the notion of a "liberal" Englishman begs the question, as by no means has the British (or English) ruling class always been benevolent or for that matter competent or liberal. More concretely, even if you assume complete benevolence, the actual governance of Ireland or India required coalitions, both in Britain and in the home nations of Ireland and India. The "liberal Englishman" has had to fight for influence in those coalitions. If say the British are ruling what we now call Northern Ireland, they are doing that largely through the Unionists and other groups in that territory. By no means can the British simply treat those groups as puppets, rather the British depend on them, are dragged into their dysfunctionalities, and historically the British have been led to quite illiberal and often imprudent acts to maintain their rule. Similarly, to maintain British rule in India required the cooperation of a large number of local rulers and potentates, and very few of those were liberal. The actual history of British rule was one of limited resources, where much of those resources had to be devoted to military defense and control, with only scant money left over to provide for local public goods. Those

²¹¹ See Mill's *England and Ireland*, (1982, pp.529-530) [1869]. See also Hollander (2015, p.394), where Mill in 1837 stated that he favored "good stout Despotism" for both Ireland and India.

public goods that the British did help supply, such as the railroads, often were tied to military purposes as well, or to satisfying British commercial interests.

To put this all in blunt terms, Mill just didn't have a good enough understanding of public choice economics, or of how governments actually worked. He shared with the later Keynes the delusion that greater understanding amongst the elite would bring progress as a matter of course. It is for that reason that he stressed the idea of a British elite that would make knowledge of India, and how to rule it, a science of its own. In reality, too often the problem was that the elite thought it ought to be "running things," rather than relying on the kinds of decentralized mechanisms stressed by Hayek. And you don't have to buy Hayek's more extreme story about the worst getting to the top (though that is sometimes true). A simple understanding of coalitions, political competition, and limited resources will bring you rather quickly to the conclusion that intelligent liberal elites can screw up their colonies pretty badly and in ways that can persist for decades or centuries.²¹²

Perhaps the most self-awareness Mill showed on colonialism was in his 1859 essay "A Few Words on Non-Intervention," where he explains why, contrary to his usual belief in non-intervention in European affairs, it was necessary for the British to rule various parts of India. For Mill, the alternative was to support various local despots who would do worse by their citizenries, at least relative to direct British administration. For Mill, the British ruling their colonies was akin to the Roman Empire incorporating Gaul and Spain – brutal and inefficient, but better for those regions in the long run. This discussion shows that Mill never abandoned his belief in British annexation and in fact swung back toward that view, an interpretation supported by some of his later correspondence from 1866 to John Morley. Mill clearly understood that

²¹² On the development of an India-focused British elite, see Mill (1990, including p.49) [1852].

control and agency problems that would arise from working through the local despots, so it seems his problem was to think that “direct British rule” was in a de facto sense possible at all.²¹³

Keep in mind that Mill on these points typically is arguing for East India Company rule, rather than direct rule from Westminster. Mill thought that the Company had the relevant expertise but that Parliament never would. In that sense Mill can be seen as arguing for some form of a “charter city,” as the concept was later dubbed by Paul Romer. Unfortunately, the commercial incentives here were not for the East India Company to maximize economic value in India, as that would have led to development, greater power for local interest groups, and the eventual kicking out of the Company. Instead, the Company focused on maintaining non-threatening rulers, siphoning off easily traded commodities and putting them on ships, investing enough in defense to keep a strong coastal presence but letting local rulers misgovern and plunder the interior, and a general gross underinvestment in public goods such as education and public health. Almost seventy percent of the Company budget for India was spent on defense. You can read everything Mill published on India without finding an understanding of that basic logic.²¹⁴

So Mill’s lack of political correctness on the colonies issue, like Hayek’s missteps on Chile or Keynes’s on eugenics, are not for me something to moralize or whine about. But it does reflect a real gap in Mill’s understanding of the world, and it is a gap that showed up in many places, most

²¹³ See Zastoupil (1994, pp.153-154) and also Mill (2006) [1859].

²¹⁴ On Mill and the Company in particular, see Zastoupil (1994, p.162, passim). For a very critical view, and the data on defense, see Nogues-Marco (2021), an interesting and very critical take though marred in some regards by bias and an excess reliance on Marxian economics. The key volume for Mill on India is simply “Writings on India” (1990), from his collected works. See also Mill’s Considerations on Representative Government (1977, p.573) [1865] where he very strongly expresses the view that the Company is necessary and that the British Parliament, due to its geographic and cultural distance, is doomed to fail in any endeavor to rule India.

of all in his embrace of some partially socialist ideas, not just in a few areas of colonial thought where Mill's views might offend contemporary sensibilities.

Note that for Mill the problem was what I call "civilizational," rather than due to any defects intrinsic to the ruled peoples. Mill argued strongly against Thomas Carlyle's view that blacks were intrinsically inferior, and furthermore he opposed both phrenology and biological essentialism. Mill had extremely rude remarks to make about the Irish and their excitability and unruliness and they needed to be "led and governed," most of all by the British. Still, he blamed this state of affairs on British misrule and clerical domination. It is unlikely that he believed the Indians of his day to be intrinsically inferior human beings.²¹⁵

By the way, if you wish to know my opinion on whether British colonialism helped or hurt India, it is not an entirely well-defined question, as it depends on the counterfactual. Is the alternative that India has no contact with the West at all, or is the alternative that the British were friendly helpers and traders? Obviously, compared to the latter scenario colonialism will look much worse than if you compare it to autarchy. I can say this: Indian rates of economic growth have been considerably higher after independence than under British rule, and that holds even when we consider the disastrous socialist period for Indian policy right after independence. That comparison does not prove causation one way or the other, but still a look at the raw data does not exactly boost the case for British benevolence, and that is not considering the Bengal famine of 1943, which the British tolerated, the inequities inherent in a colonial system, the disasters of partition, British "divide and rule" strategies, or the mere fact that the British would not let Indians vote.

²¹⁵ On Mill as opposed to Carlyle and racism, and for a broader take on Mill's civilizational approach, see Marwah (2011). For Mill on Ireland, see Bell (2010, especially pp.49-50) and again Mill (1982 [1859]).

You still *might* believe that India did better after independence only because British rule put certain public goods in place in the 19th century, such as the railroads and the partial spread of the English language. *Maybe*. Such a claim will remain speculative. But still, when I read Mill I just don't see that, when it came to India and British rule, his thought had the same sophistication as when he considered gender inequality in his Subjection of Women. Would it have been so intellectually inappropriate for Mill to have written a short book The Subjection of India? Yet that was never on the verge of happening, so the issue of India shows some weaknesses in Mill's social, political, and economic thought.

The case against Mill: was he just a socialist on the wrong track?

In addition to Mill's mistakes on colonialism and elite rule, what else might be said against the case for Mill as GOAT?

Hayek late in his career had harsh words for Mill:

“...my many years of work on John Stuart Mill actually shook my admiration for someone I had thought a great figure indeed, with the result that my present opinion of John Stuart Mill is a very critical one indeed.”²¹⁶

Hayek was so upset about Mill's role in the decline of classical liberalism that Hayek edited the volume of letters between Mill and Harriet Taylor to show, as it seems to this reader, how some

²¹⁶ Hayek (1994 [earlier date from undated], p.140). For more on Hayek on Mill, see Hollander (2015, pp.3811-382, 387, 470).

silly woman led a great classical liberal astray. For Hayek, Mill was too feminized and it was imperative to study what had gone wrong and how Mill had been seduced down the path of socialism and excess rationalism. Mill truly bugged Hayek, almost to the point where the current reader has to wonder why the negative obsession grew so bad. In his introduction to the volume with the Taylor correspondence Hayek wrote: “But even if in the final estimate Mill should not be ranked as an original thinker of the first order, I believe that his reputation will emerge from its present eclipse; he will again be recognized as one of the really great figures of his period, a great moral figure perhaps more than a great thinker, and one in whom even his purely intellectual achievements are mainly due to his profound conviction of the supreme moral value of unrelenting intellectual effort.”²¹⁷

By the time of the third edition of the Principles in 1852, Mill had greater sympathies for “socialism,” though how much is disputed to this day. To be sure, Mill used the word socialist, and he wrote repeatedly of the distinction between the laws of production and the laws of distribution, but to this reader he doesn’t seem like the socialists I meet in Berkeley or Cambridge, Massachusetts, much less the actual socialists living in socialist or formerly socialist countries.

Mill’s “Chapters on Socialism” show just how attached he remained to the idea of market competition and how skeptical he was of centralized planning. This extended essay was published in 1879, and it reflected Mill’s mature thoughts on the question, well past his early Ricardian phase.²¹⁸

²¹⁷ See Hayek (1951, p.16) and also the collection of Peart (1989).

²¹⁸ On Mill on competition, see Hollander (2015, pp.105-106).

Mill admits that the socialists have many valid points about poverty, and how poverty is visited on people who do not deserve to be poor. He devotes many pages to citing the socialists and admitting that they had a point. But once Mill gets going on the analysis of the positive proposals of the socialists, he is analytically brutal and unrelenting – though entirely polite – in his criticisms.

For instance, Mill argues against the socialist doctrine that real wages can be expected to decline under capitalism. He explains how some particular wage declines will be observed in specific sectors, but this will over time translate into lower goods prices and higher living standards for most individuals. Living standards will rise gradually over time, at least provided bad laws do not interfere with that process. That sounds more like Milton Friedman than Karl Marx.²¹⁹

Mill then turns his attention to the socialists' understanding of competition, which he views as badly deficient. In his account, the socialists see competition only as a force keeping wages low, rather than it also being a force pushing wages up. Mill does note there are some cases, such as the railways, which are natural monopolies where only two or three major companies will dominate. He then calls for state regulation (bypassing a chance to call for direct state ownership, by the way) but stresses those are the exceptional examples.²²⁰

One of Mill's fears with competition is that it encourages lower prices more than it does high quality, because prices are easier to monitor than quality. However he sees this problem as largely manageable, and calls for a public prosecutor to pursue stricter penalties against

²¹⁹ See Mill (2006 [1879], pp.728-729).

²²⁰ See Mill (2006 [1879], pp.729-731).

fraudulent businessmen. It is a brilliant, to-the-point discussion and would fit modern neoclassical economics to a T. If that is socialism, sign me up.²²¹

Mill then turns his attention to the difficulties with socialism. Mill's greatest fear about socialism concerns incentives. Under market competition, the self-interest of owners and managers induces them to do as good a job as possible running their businesses; the profit incentive mobilizes their effort and wisdom. Under the common property ownership of socialism or communism, those same incentives do not operate effectively. Furthermore, Mill argues, in some passages presaging Ronald Coase or even the later work of Sandy Grossman and Oliver Hart, that under capitalism resources will tend to end up in the hands of the people most adept at deploying them.²²²

Mill also worries that communism will thwart character development, and of course for him that is a major concern. It is hard to do better than his own words here:

“But in Communist associations private life would be brought in a most unexampled degree within the dominion of public authority, and there would be less scope for the development of individual character and individual preferences than has hitherto existed among the full citizens of any state belonging to the progressive branches of the human family. Already in all societies the compression of individuality by the majority is a great and growing evil; it probably would be much greater under Communism...”²²³

Mill in fact wants to subject communism to a kind of competitive test, as Robert Nozick had postulated with his concept of competing utopias:

²²¹ See Mill (2006 [1879], pp.731-732).

²²² See Mill (2006 [1879], pp.737-741).

²²³ See Mill (2006 [1879], p.746).

“If Communist associations show that they can be durable and prosperous, they will multiply, and will probably be adopted by successive portions of the population of the more advanced countries as they become morally fitted for that mode of life. But to force unprepared populations into Communist societies, even if a political revolution gave the power to make such an attempt, would end in disappointment.”²²⁴

It is interesting just how much Mill’s analysis of socialism anticipates...Hayek. In particular Hayek’s notion of competition as a discovery process, considered in the chapter on Hayek. Let’s just come out and say it: John Stuart Mill was not by any stretch of the imagination an actual socialist.

Mill, however, did wish to experiment with “socialistic” ideas in two significant manners. First, he favored continued experimentation with worker-owned factory and town schemes, akin to those of Fourier and Robert Owen. For Mill, these experiments held out the hope of creating a new world, or at least partial new worlds, where workers were not treated so badly and had more bargaining power. Do note these were intended as experiments within a broader competitive environment, rather than proposals for a wholesale reorganization of society.

Second, Mill favored strongly progressive taxation through high taxes on land and inheritance for the wealthy, as discussed above. Those policies were designed to ensure that significant wealth would not pass down from one generation to the next, creating a permanent oligarchy of sorts, as Mill had feared in England. This isn’t the time or place to debate those policies, but suffice to say they do not constitute socialism, and furthermore they are not so far from the preferred policies of the latter market-oriented economist James Buchanan from my own George

²²⁴ See Mill (2006 [1879], p.746).

Mason University. Buchanan sought to institute a one hundred percent rate of taxation on all inheritances.

Mill favored a progressive consumption tax, with high rates on those commodities consumed by the wealthy, and for egalitarian reasons. Today, that is a common view amongst conservatives and libertarians, though for purposes of context, note that commodity taxation was much more important as a revenue source back then than today. Mill also argued, and continued to do so throughout his life, that taxation should be levied on incomes and not on the capital stock per se. He feared that someday workers would seek to set all taxes on labor income to zero, and fund government entirely from taxes on property, again not so distant from current Republican Party concerns. He objected to the idea of double taxation, though very late in life he noted that capital owners achieve “a sense of power and importance” and perhaps a direct tax on capital could be justified on that basis. Nonetheless, as economists Bob Ekelund and Douglas Walker emphasized: “Mill wished to protect savings at all costs.” If you think of fiscal policy as reflecting the essence of a person’s view of the state, through his entire life Mill remained eminently sane, conservative, and non-socialistic by any reasonable standard. He insisted that secure property titles were a fundamental prerequisite of prosperity and civilization.²²⁵

That said, Mill did believe in stiff and progressive inheritance taxes, as he believed in a right to give but not a corresponding right to receive the inheritance. For Mill, inheritance taxes were the primary means of using the tax system and indeed government to enforce broadly egalitarian outcomes. The overall tax burden was low in Mill’s time, so a high inheritance tax over time could become a very strong influence on the distribution of wealth. Furthermore, Mill thought

²²⁵ See Hollander (2015, pp.305-308, 311). On the taxation system in Mill’s time, see Ekelund and Walker (1996), with the savings quotation coming on p.561.

that a high rate of inheritance tax could fulfill the mission of protecting savings, since he saw irresponsible heirs as too often dissipating the fortunes they lucked upon.²²⁶

On labor-managed firms, it does seem that Mill was too optimistic, and that such experiments were not going to take off, neither in Mill's time nor in the 20th century. The data along the way, such as from Yugoslavian worker-managed firms during the mid- to late-twentieth century, were not encouraging, as those firms had low productivity and also a lot of unhappy workers. In the United States, worker cooperatives and partner-managed firms can be found, but in limited sectors and they do not appear to be a general model for the organization of capital-labor relationships. Not everyone can be a law partner.

Still, perhaps it is too early to dismiss Mill's vision altogether. He was wrong but he was not crazy. More generally, Mill was not afraid to be ahead of his time, by decades or even by centuries. The limited liability corporation as we know it became widespread only in the early 19th century, and as an idea and in practice it has evolved a great deal since then. Might we not hold out hope that future innovations in governance and also technology can indeed shift the bargaining power of labor in beneficial ways? In any case, I'm not going to mark Mill down very much on this one. His desire for experimentation was appropriately qualified, and his view might end up being right someday, even if Robert Owen and the French socialists won't end up as the appropriate innovators and role models. In his day, that was simply all he had to latch onto. He saw some people doing things and conducting experiments, and given the indignities of laboring life in Victorian England, those were very much experiments he should have been looking at, even if he overestimated their short- and medium-run potency.

²²⁶ On all this, see Ekelund and Walker (1996, including p.575).

To understand Mill on socialism, it is also necessary to consider his views on economic growth, Mill had several phases of thought, but for most of his career he held a very optimistic outlook and rebutted Malthus. As mentioned above, he seemed to have favorable attitudes toward birth control, and furthermore he thought the economic pie could continue to grow. He was very much a believer in progress, whether in the moral or the economic sphere. In the 1870s, however, Mill's take turns more pessimistic, at least by modern standards. He wrote of a "stationary state," and stressed how technological progress was limited by its nature. More fundamentally, Mill favored a world without "bustle," and he thought further character development would bring this world about. Individuals would still strive, but for inner peace and cultural development, not for the accouterments of modern commercialism based on hard work and pecuniary ambition. The actual "Art of Living" could expand indefinitely, but like Keynes's scenario of the very short work week and in fact Keynes seems to have drawn heavily on Mill's "stationary state" discussion in volume two of the *Principle of Political Economy*. Mill also came out in favor of solitude, and against population crowding, and he painted a broader picture of a society that turned inward instead of continuing to conquer new frontiers in the physical world. No, this wasn't socialism, but it is hardly the capitalism of our contemporary world either.²²⁷

Overall, one of the biggest mistakes you can make reading Mill is to think his views ought to fit together on our current left-right political spectrum. His mind was rigorously analytical, he did not take ideological short cuts, and he thought through all issues according to his utilitarian and civilizational standards.

Summary evaluation

²²⁷ See Mill (2006, *Principles of Political Economy*, volume III, pp.752-757, with "The Art of Living" from p.756).

The case against Mill as GOAT is not that hard to drum up, namely that he doesn't seem to be the greatest economist of all time. Hardly anyone considers him that, and no single work of his reflects that either.

The case *for* Mill is not that hard to see either, at least once you look for it. First, you need to look past the single, individual work. Paul Samuelson, in his essay on the history of economic ideas, put it well: "Mill, son of a dogmatic father, was himself eclectic and had an engaging ability to change his mind when new facts of arguments became available or merely from rethinking old attitudes. It is almost fatal to be flexible, eclectic, and prolific if you want your name to go down in the history books..." Hayek referred to Mill's "...rare capacity for absorbing new ideas... and how it made him "...a focus in which most of the significant changes in thought of his time combined."²²⁸

Mill was the best and deepest thinker of anyone considered here, and what exactly are the boundaries of economics anyway? Is not the best thinker – almost by definition – going to be the best economist in the most relevant sense of that term?

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²²⁸ See Samuelson (1962, p.11) and Hayek (1989 [1942], p.274), reproduced in Peart (1989).

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CHAPTER 7

Malthus as GOAT and are we all doomed?

Malthus as GOAT? Don't only the crazy pessimists want to make that nomination? Haven't the last few centuries of life above subsistence levels – most of all the extreme plenty of the post World War II era -- refuted the good Reverend?

Well, I will return to those questions, but in the meantime the case for Malthus as GOAT is reasonably strong and from some points of view it will appear to be decisive.

Let's start with his number one contribution, which I will relabel “environmental economics.” How many times do you read or hear that environmental problems, and the pressure of so many human beings upon the natural environment, is our number one problem? Multiple times each week or each day? You may or may not agree (I would nominate nuclear weapons as my number

one worry), but Malthus was the go-to guy on what most smart people probably would say is our number one problem. Whether or not you obsess over the particulars of overpopulation, Malthus's theory is more broadly one of human pressures on the environment, and the lack of suitable equilibrating mechanisms at anything other than extremely high human costs.

Here is a simple question: of all the other GOAT contenders, how many of them made contributions to environmental economics *at all*? Apart from a few pieces by Kenneth Arrow, it is hard to come up with much.

So if Malthus is the major economic thinker on what might be our number one problem, isn't that a decent case for GOAT right there? Malthus has dominated our collective imaginations since he wrote, and terms such as "Malthusian" and "neo-Malthusian" remain in common parlance, arguably more than say "Smithian" and certainly much more than "Millian," to compare him to two other classical economists of note. You will hear "Friedmanite" and "Hayekian" if you work in the world of ideas, but not with any frequency that compares to "Malthusian." Only "Keynesian" is a rival here.²²⁹

Note that Keynes himself was obsessed with Malthus and with Malthusian arguments. Keynes delivered a famous lecture (to the Eugenics Society I might add, and published in *Eugenics Review*), later turned into an essay "Some Economic Consequences of a Declining Population." Keynes saw the macroeconomy as a kind of race between two opposing forces. On one hand, declining population was bad for aggregate demand, economic growth, and the general

²²⁹ The term "Malthusian" already was common in Malthus's time, and it received an extra boost in 1877 with the founding of the Malthusian League by Charles Bradlaugh and Annie Besant. The League wished to legalize birth control literature and adhered to a number of Malthusian views on population. See Mayhew (2014, p.151), and James (1979, p.346) on the early importance and currency of "Malthusian."

macroeconomy. A growing population would boost both aggregate demand and aggregate supply, a kind of holy grail of macro policy. At the same time, however, a growing population meant that a society would crash into the Malthusian dilemma more severely. With population expanding, how were living standards to rise permanently? Pressure on resources would result, and the main problems of classical economics would come back into play. So in other words there was a dual dilemma of unemployed resources on one hand and overpopulation on the other. Keynes closed the essay by noting, in the final paragraph, that: “I do not depart from the old Malthusian conclusion.” Coming only a year after the General Theory, in essence Keynes is admitting there is a more general framework than what he had presented in 1936, namely that of Malthus. Was it such an accident that his Cambridge students referred to him as “Jeremiah Malthus”?²³⁰

Unlike our other GOAT contenders, Malthus arguably was relevant and largely correct about more than ninety-nine percent of human history. Indeed, until the late 18th/early 19th century, most of human existence did take place at or near subsistence. It is not even clear whether agricultural societies had much higher standards of living per capita than did hunter-gatherer societies, and it seems that living standards in most of Western Europe in 1700 were not obviously much above those at the time of Christ under the Roman Empire. Malthus offered a plausible explanation of those realities, and none of our other GOAT contenders did. Imagine Malthus in an advocate mode: “I explained the core economic features of 99% of history, you are struggling to deal with a short window of less than 1%.”

And that is *the second best argument* for Malthus, not the best argument.

²³⁰ See Keynes (1937) and also Magness and Hernandez (2017, p.92) on what Keynes’s students called him. For more on the Malthusian perspectives of Keynes, see Markwell (2006, pp.165-169).

If you ask which major social and historical movements Malthus was connected to, the answers are numerous and easy. I've already mentioned the environmental angle, and the 99% of human history, but Malthus also is the most important theorist of the great demographic transition of the West, which started around the time that Malthus was writing. We moved from a world of around one billion people in 1800 to about eight billion today, arguably the single biggest of many significant changes over those centuries. If you wish to understand the pressures and challenges along the way, Malthus is at least a reasonable place to start, even if he got some key predictions wrong.

Malthus was obsessed with the problem of poverty, and he stood on the cusp of the pre-industrialization and industrializing worlds. He asked whether industrialization truly could raise living standards in the long run. That puts him at the forefront of yet another significant historical trend and debate.

You might be thinking that Malthus was another “dead white male,” but his theory placed European settlement of the New World, and also the South Pacific, at its center. The 1803 edition of his Essay on Population spans the globe in its coverage and Malthus spent much of the book discussing issues related to colonies and also indigenous peoples. Would the underpopulated new colonies avoid Malthusian traps? How would European settlement affect their standards of living? How valuable was new land to the British and European enterprise itself? Malthus dealt with those issues – among the most important for the 19th and 20th centuries – more than did any other GOAT contender.

It is also striking that Malthus was a *major* influence upon both Charles Darwin and Alfred Russel Wallace and their path breaking theories of evolution. The notions of population numbers

varying, and groups of people popping in and out of existence, helped them both formulate their theories of natural selection. Malthus thus helped to drive the very existence of modern evolutionary biology, surely a major (posthumous) contribution that no other GOAT contender has anything comparable to.

Malthus intersects with science but also with theology more than any other GOAT contender. Malthus's parable of how sexual and reproductive urges lead eventually to higher population and lower real wages can be read as an account of Original Sin, translated into economic forces on a macroeconomic scale. Once Adam and Eve moved into a world with sex and reproduction, the Malthusian logic would follow, or so it seemed to Malthus. Don't forget Malthus was a Reverend, and there is every reason to believe he was a sincere Reverend. Nonetheless free will still played a role in his theory, and humans were not on a par as the animals. Humans could exercise independent moral judgment because of their superior reasoning faculties and their greater ability to estimate the long-term consequences of their actions. They just weren't very good at it.²³¹

Isn't it amazing that the same GOAT contender makes the biggest contributions to both biology and theology? That is hardly going to weaken the case for Malthus.

Malthus also was a critic of utopianism more than anyone else on this short list (with Hayek coming in second), throwing cold water on everyone else's plans to make the world a much better place. Malthus had a wonderfully developed sense of the tragic, and he focused on how our procreative impulses interact with the environment. For Malthus it could be said that the idea of equilibrium triumphs over that of progress.

²³¹ On Malthus and original sin doctrines, see Bashford and Chaplin (2016, pp.67, 84).

I'll return to Malthus on the environment, and whether he was just plain, flat out wrong, but he has more yet in his favor for GOAT.

Malthus was better on ordinary microeconomics than most economists realize. He never latched onto the labor theory of value, and if you read his Principles of Political Economy you will find he uses supply and demand analysis throughout, without making much of a fuss about it. The historian of thought Samuel Hollander wrote a 1280 page book showing how deeply embedded supply and demand were to the economic thought of Malthus. Hollander was right, and the economic literacy of Malthus was high, especially for his time.

Malthus also had an understanding of the difference between “a shift of the demand curve” and “moving along a demand curve.” A demand curve might “shift out” for instance if the demand for corn went up, meaning that at each price point individuals would buy more corn than before. “Moving along a demand curve,” in contrast, is when tastes stay the same, the price moves, and the demand purchased shifts in response. That is now the standard stuff of undergraduate microeconomics, but during the days of classical economics hardly anyone had mastered that distinction. Malthus had, and it was because he was so smart and so facile with economic reasoning.²³²

Malthus also was revelatory on macroeconomics, being one of the first theorists to pinpoint many recessions as the result of inadequate aggregate demand, a topic I will consider more below.

²³² On this, see Hollander (1997, pp.230-231). In general, this Hollander book is a superb source for Malthus's contributions to economics.

It is striking how much Malthus's **Essay** set off intellectual reverberations throughout the Western world. He upended entire world views, and often the reaction was fierce, along most points of the political spectrum.

The poet Percy Bysshe Shelley called Malthus “a eunuch and a tyrant,” an “arch-priest,” a “sow-gelder,” and “the apostle of the rich.” He regarded Malthus's recommendation of moral restraint simply a new burden being added to all the others suffered by the poor. The poet Coleridge was no less scathing. He argued that human history was indeed progressive rather than cyclical, and he referred to “the stupid ignorance of the man,” and he insulted Malthus for his verbosity. Later in his life, in the 1830s, Coleridge still was referring to Malthus as putting forward “so vicious a tenet, so flattering to the cruelty, the avarice and sordid selfishness of most men that I hardly know what to think of the result.” Literary critic William Hazlitt described Malthus's Essay as “the most complete specimen of illogical, crude and contradictory reasoning that perhaps was every offered to the notice of the public.” It seems that economic reasoning had arrived, and not everyone liked all of the emphasis on constraints.²³³

Another romantic poet, Robert Southey, offered more substance in his critique. He argued that the source of British poverty was the Reformation, which had cut aid from the church, and that manufacturing had devastated traditional British villages and their social and economic fabric. One feature of Malthusian thought, which to a large degree has stuck in economics more generally, is that it does not allow you to blame all the changes, institutions, and individuals you might otherwise like to blame. For Southey, however, the Malthusian logic was a plague of

²³³ See Petersen (1979, pp.472-474), including on Southey below. For indirect references to Malthus in the poetry of the times, see Fulford (2001).

modernity rather than a universal problem. He hated the amorality of Malthus, and the suggestion that perhaps we could not do so much better than the status quo.²³⁴

William Godwin himself wrote a lengthy response to Malthus, in a 626-page 1820 book called Of Population. Godwin argued that many of Malthus's numbers were wrong, the world is by no means full, and that robust populations had done just fine in the past.²³⁵

On top of all that, Malthus had a fun name, as "Malthus" came from the earlier "Malthouse," as Keynes pointed out in his biographical essay.

Malthus on population

There is more than one Malthus on population, because there is more than one edition of Malthus's An Essay on the Principle of Population. The 1798 edition is more polemic, less measured, and less analytically sophisticated. It is also the one that made the biggest splash. The 1803 edition typically is regarded as "canonical Malthus" by historians of economic thought, and I shall focus my attention there. Malthus himself stated, in the preface to the 1803 edition, that it was essentially a new book and probably should have been published as such. But most people, when they hear of Malthusian ideas, typically are getting a rendition of the 1798 book. By the way, the 1826 edition is the one you are most likely to find for free on-line, and reading that one is a perfectly satisfactory Malthusian experience.²³⁶

²³⁴ See Eastwood (1989, pp.322-323).

²³⁵ See Petersen (1979, pp.475-476).

²³⁶ See Malthus (2018, p.4 [1803]). On the complexities of Malthus on arithmetical vs. geometric rates of growth, and how he made the argument increasingly less mechanistic, see Hollander (1997, chapter one, passim). On precursors of Malthus, see Strangeland (1966) and Spengler (1942).

The 1798 book puts forward a comparison between two methods of growth: the arithmetic and the geometrical. Over time and through the later editions, Malthus kept on refining this argument and making it less mechanical, but here is the crude version. If left unconstrained, population can keep on doubling periodically. To move from 1000 to 2000 individuals is the same problem as moving from 1 million to 2 million. We know how the technology works! The production technology for food, however, involves diminishing returns. There is only so much land, and eventually humans move from growing on very fertile land to less fertile land.

It is this clash between two principles of growth that rules history. When population lags behind the supply of fertile land, times are good and real wages are high. But that in turns induces larger families, which puts more pressure on the land and makes the diminishing returns of agriculture more binding. Population has outraced the food supply, and nature's cruel response will be a series of correctives, including starvation but also in the shorter run lower real wages, as there just isn't enough food to go around. That is the basic Malthusian dilemma, and it relies on relatively few assumptions. Of course as more individuals die, and family sizes shrink, a reequilibration takes place, albeit a very unpleasant one.

Being an English child was indeed a precarious fate in the time of Malthus. In the 1760s, for instance, when Malthus himself was born, it is believed that 166 out of 1000 children died in their first year of life. Another 113 died in the first four years of life, implying that overall about one in four children did not live to turn five years of age.²³⁷

Keynes, in his biographical essay on Malthus, called the first 1798 edition of the Essay “a work of youthful genius.” He viewed it as full of vigor, and that Malthus believed he had found the

²³⁷ See Mayhew (2014, p.14).

key to understanding human misery. It seems that Malthus wrote the first edition in part as a rebuttal to a family argument with his father -- a well-to-do supporter of Godwin and Rousseau -- so that may explain the polemic tone and it also gives the story a Freudian angle.²³⁸

The 1803 edition builds a broader framework, bringing additional variables to the fore. Rather than obsessing over the mathematics of population and food supply growth, Malthus emphasizes the distinction between positive and preventive checks to population growth. Early in the book, Malthus sums up his framework neatly:

- “1. Population is necessarily limited by the means of subsistence.
2. Population invariably increases, where the means of subsistence increase, unless prevented by some very powerful and obvious checks.
3. These checks, and the checks which repress the superior power of population, and keep its effects on a level with the means of subsistence, are all resolvable into **moral restraint, vice, and misery** [emphasis added].”²³⁹

To make that tripartite distinction clearer, moral restraint is being a good boy and not screwing around with the ladies, and *waiting for the right reasons*. Vice includes “Promiscuous intercourse, unnatural passions, violations of the marriage bed, and improper arts to conceal and consequences of irregular connexions...”²⁴⁰ Misery refers to the declines in population stressed in the first edition, most typically through starvation but also possibly through war, disease, and other terrible means.

²³⁸ Keynes, *Essays in Biography*, p.119. On Malthus and his father, see Mayhew (2014, p.61).

²³⁹ Malthus (2016 [1803], p.23).

²⁴⁰ Malthus (2016 [1803], p.19).

When Malthus wrote of “moral restraint,” he was not just engaging in wishful thinking. In the middle of the eighteenth century, the average age of marriage for men was twenty-eight and for women twenty-six, with much of the childbearing postponed accordingly. By no means were all of those individuals “entirely moral” in the meantime, with visits to prostitutes, non-intercourse means of sex, methods of contraception, amateur abortions, and other compensations available along the way. Still, if it was difficult to support a family with prevailing wage rates, individuals did in fact adjust their behavior accordingly and have fewer children and later in their lives, and Malthus gave that adjustment a much more important place in his 1803 revision.²⁴¹

So one way to read Malthus is this: if a society is going to have any prosperity at all, the people in that society either will be morally quite bad, or they have to be morally very, very good, good enough to exercise that moral restraint. Alternatively, you can read Malthus as seeing two primary goals for people: food and sex. His accomplishment was to show that, taken collectively, those two goals could not easily be obtainable simultaneously in a satisfactory fashion. In late Freudian terms, you could say that eros/sex amounts to the death drive, but again painted on a collective canvas and driven by economic mechanisms.

Malthus also hinted at birth control as an important social and economic force, especially later in 1817, putting him ahead of many other thinkers of his time. Birth control was widely practiced for centuries through a variety of means, and Malthus unfortunately was not very specific. He did call it “unnatural,” and the mainstream theology of his Anglican church condemned it, as did many other churches. But what did he really think? Was this unnatural practice so much worse than the other alternatives of misery and vice that his model was putting forward? Or did

²⁴¹ See Mayhew (2014, p.15).

Malthus simply fail to see that birth control could be so effective and widespread as it is today? It doesn't seem we are ever going to know.²⁴²

From Malthus's tripartite grouping of vice, moral restraint, and misery, two things should be clear immediately. The first is why Keynes found Malthus so interesting, namely that homosexual passions are one (partial) way out of the Malthusian trap. The second is that there is a Straussian reading of Malthus, namely that he thought moral restraint, while wonderful, was limited in its applicability. So maybe then vice wasn't so bad after all? Is it not better than war and starvation?

I don't buy the Straussian reading as a description of what Malthus really meant. But he knew it was there, and he knew he was forcing you to think about just how bad you thought vice really was. Malthus for instance is quite willing to reference prostitution as one possible means to keep population down. He talks about "men," and "a numerous class of females," but he worries that those practices "lower in the most marked manner the dignity of human nature." It degrades the female character and amongst "those unfortunate females with which all great towns abound, more real distress and aggravated misery are perhaps to be found, than in any other department of human life."²⁴³

How bad are those vices relative to starvation and population triage? Well, the modern world has debated that question and mostly we have opted for vice. You thus can see that the prosperity of the modern world does not refute Malthus. We faced the Malthusian dilemma and opted for one of his options, namely vice. It's just that a lot of us don't find those vices as morally abhorrent as

²⁴² See Cremaschi (2014, pp.175-176).

²⁴³ Malthus (2016 [1803], p.19). For more general evidence that Malthus's actual views were pretty close to his expressed views, and to the views of the clergy he hung around with, see Waterman (1991).

Malthus did. You could say we invented another technology that (maybe) does not suffer from diminishing returns, namely improving the dignity and the living conditions of those who practice vice. Contemporary college dorms seem pretty comfortable, and they have plenty of birth control, and of course lots of vice in the Malthusian sense. While those undergraduates might experience high rates of depression and also sexual violation, that life of vice still seems far better than life near the subsistence point. I am not sure what Malthus would think of college dorm sexual norms (and living standards!), but his broader failing was that he did not foresee the sanitization and partial moral neutering of what he considered to be vice.

Malthus does lay out just why a “general corruption of morals, with regard to the sex” is so bad. He wrote that this state of affairs would “...poison the springs of domestic happiness, to weaken conjugal and parental affection, and to lessen the united exertions and ardour of parents in the care and education of their children; effects, which cannot take place without a decided diminution of the general happiness and virtue of the society; particularly, as the necessity of art in the accomplishment and conduct of intrigues, and in the concealment of their consequences, necessarily leads to many other vices.”²⁴⁴

And that is why I reject the Straussian reading of Malthus – he thought a society based on vice would be very bad, somewhat akin to an urban brothel of his time writ large. Thus if you wish to argue that Malthus somewhere went empirically wrong, that overly negative portrait of vice is one very good target, above and beyond talking about the Green Revolution and crop yields and how we can all buy flat screen TVs.

I invite the reader to think about Malthus first and foremost as doing cultural economics, but for him culture means something very specific. Malthus scholars Alison Bashford and Joyce E.

²⁴⁴ Malthus (2016 [1803], p.19).

Chaplin have an arresting sentence: “Culture, for Malthus, was invariably about gender.” One of the most revisionist features of Malthus’s thought was simply the belief that most other forms of culture, in the longer run, didn’t matter nearly as much as we might think. But gender relations did, and furthermore matters of sex and the environment were inextricably linked.²⁴⁵

In other words, Malthus was the economist who thought through the implications of sex. Surely that too puts him in the running for GOAT.

If you read Malthus’s later Principles of Political Economy, published in 1820, he did not have a crude or overly simplified account of the mechanisms of population and wage adjustment. You don’t have to agree with his entire conceptual framework, but those were the thoughts of a reasonable, scientifically-oriented writer, not a dogmatist, moralist, or theologian-first approach. Qualifications are common and multiple mechanisms are cited frequently.²⁴⁶

That said, Malthus in some analytical regards never moved past the limitations of his 1798 edition and the cruder mechanisms of population control. If you read Malthus on the Poor Laws, on free trade, or on rent, it does seem he is often assuming, often quite explicitly, that the supply of food is inelastic. For instance, in his skepticism about the Poor Laws in the 1803 edition, he seems to think that the income transferred will just reallocate food from one group of people to another, rather than calling forth more production of food. In his chapter on the Poor Laws he wrote: “But if I only give him money, supposing the produce of the country to remain the same, I give him a title to a larger share of that produce than formerly, which share he cannot receive without diminishing the shares of others.”²⁴⁷

²⁴⁵ See Bashford and Chaplin (2016, p.104).

²⁴⁶ See for instance Malthus (1820 pp.257-266).

²⁴⁷ See Malthus (2016 [1803], Book III, chapter five, the quotation being from p.314 but not the only instance).

The theoretical framework of the 1803 edition made a big advance on the 1798 edition by allowing for the cultural constraints to be the ones that are binding, for instance there might be extra food – elastic in supply – because people have practiced vice, or perhaps moral restraint. Yet when analyzing actual concrete problems, Malthus fell back into the assumptions he was most comfortable with, namely food supply as the binding constraint and inelasticity for that supply. So in this very important regard we cannot dismiss the cruder version of Malthus, which continued to hang around as an analytical remnant and indeed to rule many of his analyses of concrete real world problems. And this inconsistency has to count as one of his most serious analytical mistakes.

The rest of the Essay

Once you get past the theory statement of the 1803 Essay, about 25 pp. in my Yale University Press edition, the rest of the book is obsessed with building a kind of leveling function, to show us that all societies have to fit into his framework, and that we have fewer choices than we might think. At the same time, he is engaging with Enlightenment philosophes, theorists obsessed with policy choices, and those who revered the ancient world.

Malthus opens with what seems to be a world tour of indigenous peoples, first citing the “wretched inhabitants” of Tierra del Fuego and then moving on to van Dieman’s Land, and later the American Indians, indigenous peoples of Paraguay, various Pacific and South Sea islands, and the Maori. He also looks at the Goths of 250 A.D., the Tartars, the Scythians, India, Tibet, and much more. In each case Malthus is keen to show how his analytical framework applies, and through the combination of examples to show its supposed universality.

His very negative descriptions of indigenous and non-European peoples will hardly endear him to the contemporary reader, most of all those on a quest to cancel. But still we need to understand the import of Malthus's scope and interest. He was treating the problems of non-Europeans and indigenous peoples on a par with the economic issues of Britain, and in essence telling the British and the Europeans that they are nothing special. The northern Europeans, for Malthus, do exercise more moral restraint, but that just doesn't serve that much to their long-run advantage, nor does it remove them from the realm of tragedy. In that sense Malthus was a revolutionary multiculturalist, a deconstructor of the supposed wonders of European, Chinese, and ancient Greek and Roman civilizations. The sequence of his treatment starts with Tierra del Fuego, a stand-in for the most extreme barbarians, and finishes with a look at China, Japan, and ancient Greece and Rome, and ultimately they are all on the same Ferris wheel of population and subsistence cascades. Malthus is serving up a revisionist and indeed revolutionary revaluation of the entire history of mankind.²⁴⁸

What about China? It was a common trope during the Enlightenment that the Chinese were better off than the Europeans, and the country supposedly was prospering under the rule of benevolent autocrats. Yet Malthus is brutal, albeit in a casual way, about the prospects for that country. China is just another domino in the row of societies to be considered, yes along with Tierra del Fuego, which was his opening case study and his stand-in for extreme barbarism. The Chinese were no more able to escape the Malthusian mechanisms than were the Patagonians, and Malthus described in detail how the Chinese resorted to infanticide to remain within the bounds of population constraints. The message was loud and clear, though perhaps a little invisible to the current reader: the Chinese do not offer a separate alternative to the precariousness of the

²⁴⁸ On greater moral restraint for the northern Europeans, see Malthus (2016 [1803], p.277 and passim).

Malthusian model. It seems Malthus exaggerated the degree to which the Chinese relied on infanticide, and he exaggerated the extent of their mortality volatility, but he did recognize that the country was less prone to major epidemics at that time. Given the popularity of China in Malthus's time, it is no surprise that this is one of the longest and best documented discussions of any society in the book.²⁴⁹

After the discussion of China and Japan, Malthus turns to a final sacred cow, namely the ancient world. Keep in mind that we are coming off an eighteenth century context with heated debates about the relative merits of the moderns vs. the ancients, running through most of the century. By this point you probably know how the discussion will go, namely that Malthus lays out the wars, plagues, and infanticide that these societies suffered under, driven of course (for Malthus) by his population mechanics. He also discusses the thought of Aristotle and Plato, in particular Plato's dialogue Laws. He argues that both Plato and Aristotle favored eugenics, in part to limit the population and to make societies more sustainable, that attribution of their motives being a bit of a stretch. In other words, in a rather grand and grabby maneuver, Malthus is suggesting that their broader political frameworks need to be subsumed over his own, and thus he is claiming to stand over the Western tradition of political thought. In a funny way, although Malthus has obvious elements of pessimism in his thought, he is making a new case for the moderns, namely that only the moderns (Malthus!) have an intellectual framework that bridges the ancients and the moderns together.²⁵⁰

²⁴⁹ The evidence suggests that the Chinese had relatively stable population, helped by granaries and the regular redistribution of food supply to the needy. There was infanticide and epidemics and famines, but it seems the Chinese did manage mortality better than did most other places. See Lee and Feng (1999).

²⁵⁰ On the Greeks, see Malthus (2016 [1803], Book I, chapter XIII).

The Romans of course are subject to the same logical examination, and he also takes care to note that slavery did the Romans no favors, as slaves press on the means of subsistence, being well aware that his own time was embedded in debates over its own forms of slavery. Malthus ends Book I with a striking and radical discussion in the final paragraph. First, moral restraint was lacking amongst the Romans, and war was the number one means of population control. He then notes that mankind generally oscillates between circumstances of want and plenty, noting in the same breath that is what we should expect from “less civilized nations.” The downgrading of the ancient world is now complete.²⁵¹

Drawbacks of Malthus – was he just plain, flat out wrong?

The most common criticism of Malthus is that he neglected the immense progress that was to follow and to some extent predated the publication of the various editions of his Essay. In the twentieth century, Malthus’s most prominent critic was the economist Julian Simon, who wrote of the human creative spirit as the “ultimate resource,” a source of new ideas and innovation and a blessing for mankind. People are thus also creators. Simon also pointed out that many of the instances of starvation in his time, for instance in Africa, came in the less densely populated parts of that continent. Population density, in many instances, helped to attract and sustain infrastructure, which enabled the delivery of essential food supplies.

Even in his own and much poorer time, Malthus encountered criticism for his pessimism. For instance, James Anderson (1739-1808), a Scottish farmer, also wrote on these topics and before Malthus. He argued that mankind would be able to boost the productivity of agriculture to keep up with the increase in population. Pretty obviously he was right, and Anderson himself was an

²⁵¹ For the quotation, see Malthus (2016 [1803], p.148, and Book I, chapter XIV on the Romans).

innovator, having developed a particular kind of plough for his fields. More generally, it was far from obvious to predecessors that Malthus was correct. Adam Smith and David Hume both seemed to think that larger numbers were fine, at least if institutions were functioning sufficiently well. The Mercantilists also usually were fans of either large or growing populations or both.²⁵²

Most generally, Malthus has fallen from favor because so many parts of the world no longer live anywhere close to the subsistence level. It just doesn't seem that he is "man of the hour." Have you noticed that China, with more than 1.3 billion people, rose from famines in the 1960s to the world's largest economy today (by some but not all measures), with rapidly diminishing rates of poverty and numerous billionaires? That hardly seems to fit the Malthusian model.

It is less frequently remarked that Malthus was wrong about some other less visible empirical issues as well.

In the decades leading up to Malthus's writings, the British population was in fact rising steeply. From 1750 to 1800, the average age of marriage fell by two to three years, and that resulted in what is roughly a 20 to 25 percent increase in fertility. Thus from 1750 to 1800, the population in England and Wales rose from 5.9 million to 8.7 million, a significant increase, and typically ahead of other parts of Europe, as best we can tell. On one hand, that population increase helps account for why Malthus's attention was drawn to the topic. But on the other hand, while those were times of very real hardship, the population boost in fact helped to drive economic growth, and it continued throughout much of the nineteenth century and it enabled the Industrial Revolution to come to fruition, both from the demand side (more people to buy products) and the

²⁵² See Schumpeter (1980 [1954] p.263 on Anderson and more generally p.257).

supply side (more people to invent them). Malthus was writing as if those higher population numbers were impoverishing England, but they were not.²⁵³

Over the longer term, the picture looks worse for Malthus yet. Across 1550-1820, it is believed that population growth in Germany, Spain, Italy, and France was in the range of 50 to 80 percent. In England, over the same years, the population rose by an astonishing 280 percent. In those same years, on the whole, England was gaining in power, influence, and status and also per capita wealth over those other regions, with most of the living standard gains coming after the early 17th century. The supposed Malthusian comeuppance simply did not arrive.²⁵⁴

Yet at least some pieces of the data did favor Malthus. Starting in the 1340s, when the Black Death arrived in England, real wages rose by about 50% in the time period stretching to 1400, arguably because the decline in population placed less pressure on the land. Almost half the English population died because of the plague. Once population recovered, however, downward pressure on wages resumed, with some steep real wage declines in the 16th century, admittedly with many of the mechanisms (and data sources) being unclear.²⁵⁵

Also consider which parts of England did take big population hits during that period and why. The marshlands of lowland England had very high malaria rates, and the major cities had above-average sanitary problems and thus higher deaths for that reason. Those phenomena do fit into the broader interpretation of Malthusian theory which stresses man vs. nature, but they

²⁵³ On those population and fertility numbers, see Mayhew (2014, p.15). Malthus's Essay, in the chapter on population in England, does admit that the numbers of the English are increasing. He doesn't quite address the potential problem directly, but he does segue into a discussion of how population numbers can be inexact and unreliable, see Malthus (2016 [1803], pp.251-254).

²⁵⁴ See Mayhew (2014, p.16).

²⁵⁵ See Roser (2020).

contradict the narrower version where diminishing returns and food supply are usually the relevant constraint on population. The relevant check on English population, over those centuries, may have had more to do with public health considerations than with diminishing returns in agriculture. But if diminishing returns in agriculture rarely were the relevant constraint, it may be that even the more sophisticated versions of the Malthusian theory don't have such a coherent account of how all of the constraints fit together.²⁵⁶

Or consider another problem with the cruder versions of Malthus's theory: they do not match with the empirics very well. The basic predictions from the 1798 edition are that higher real wages will call forth higher population numbers, and furthermore that higher population will lower real wages, at least in the time periods prior to the Industrial Revolution. Yet the African data we have, while imperfect, do not seem to illustrate that pattern. As best we can tell, short-run movements in population are driven by non-economic factors, such as changes in family practices or institutions. Again, that does not overturn the broader Malthusian apparatus from the 1803 edition, but even that model has factors of vice, misery, and moral restraint fluctuating around a basic food supply/population equilibrium. Maybe even the more sophisticated Malthusian theory didn't have the basic underlying model right. One way to put the question is this: what exactly does Malthus's theory – in whichever form – predict for short-run movements in population and real wages? Can the theory be falsified once it is more sophisticated and includes more variables? The answers here are not obvious.²⁵⁷

²⁵⁶ On the areas with high mortality, see Mayhew (2014, pp.16-17).

²⁵⁷ On Africa, see Kenny (2010). Cinnirella, Klemp, and Weisdorf (2017) claim to find wage and fertility evidence in favor of Malthus, but more critically see Clark and Cummins (2019). The recent paper by Bouscasse, Nakamura, and Steinsson (2021) shows a relatively weak link between real wages and population growth in the British data leading up to the time of Malthus.

You might think that the long-run inability of economies to exceed subsistence wages, before the Industrial Revolution, does match the Malthusian predictions. Still, we also have to ask whether other historical factors might have been keeping wages close to the subsistence level for so long. How about the possibility that an increase in predation, or the rise of destructive interest groups, occurs as societies became wealthier and then dragged them down? Maybe yes, maybe no, but these debates have hardly been settled conclusively in favor of Malthus, and again which are even the short-run predictions we should consider to test Malthus versus those other hypotheses?

For all those problems, keep in mind just how generally we can interpret Malthus's arguments. He focused on diminishing returns to food production, but a Malthus-like argument will work for diminishing returns to *any* key factor behind economic growth. What if there are diminishing returns to the carbon-carrying capacity to the air? Diminishing returns to finding and using fresh water? Garbage storage and disposal? Diminishing returns to the ability of biodiversity to withstand increasing human pressure? In that latter case the problem is that non-human animals *cannot*, in fact, reproduce according to a linear function.

The simplest version of Malthus is an account of how the world runs when all essential factors do not grow at the same rate, and in particular those growth rates diverge in a roughly consistent and sustained manner. At some point one of those factors becomes too scarce and the system crashes, leading to a plunge in living standards and possibly a population crash as well. In this sense Malthus is presenting a general rather than a special case, as it would seem that roughly equal rates of growth for the essential factors is the unusual setting, not the default setting. Malthus would have strengthened his argument if he had made this point more explicitly, though I suspect this kind of understanding did reside in his intuition.

This statement of the Malthusian dilemma also makes it clear that the Malthusian perspective is not opposed to “dynamism.” Sometimes the naïve charge is leveled that Malthusian arguments overlook mankind’s ability to innovate dynamically, or something like that. That is quite untrue, especially once we consider this more general Malthusian framework. Part of the initial problem is that some parts of the system grow more rapidly (are more dynamic!) than others. If no part of the system were dynamic, a stasis of some kind might hold, but it does not. Differential rates of growth, for the key or essential parts of a system, typically are a sign of some dynamism or more likely yet a fair degree of dynamism, since the pressure on the fixed, static, or slowly growing factor is stronger as other parts of the system are more dynamic. To give a simple example, if the carbon-carrying capacity of the atmosphere is the key binding constraint, that is a bigger problem as the coal sector, automobile sector, construction sector and so on are more dynamic. It is a smaller problem if those sectors are less dynamic.

Another way to rephrase the Malthusian dilemma is to tie it into current debates over robots and automation. In Malthus’s argument, if real wages rise, the population grows. But these days we all know that “population” can be “population of robots.” At higher real wages, employers have a greater incentive to invest in, build, and deploy robots. Of course robots also require energy and maintenance of some kind, their version of food, but that is a potential problem for the humans. The cheaper it is to build robots, the more will be built, and possibly the more competition humans will face, whether in the workplace or for the energy resources of the world more generally. There might be complementarity at *many* margins, but is their complementarity overall at the final margin of expansion? Surely at some margin, at least for many jobs, it seems like the robots are just competing with the humans, and lowering their real wages, rather than merely augmenting them.

If human wages are bounded from above by the costs of creating more “entities” – whether feeding humans or building robots – we again arrive at the Malthusian problem. And the more dynamic the economy is, the more we might need to worry about this problem. A very dynamic economy probably will be very good at building lots of robots cheaply, which may make us more rather than less likely to end up in Malthusian dilemmas.

Was Malthus a meanie?

No.

First, Malthus was strongly opposed to slavery and spoke out as such. As you might expect for an author so famous, the participants in the slavery debates both cited Malthusian doctrine as being on their side. For instance, it was argued that taking Africans away as slaves actually helped Africans by alleviating Malthusian pressures and thus allowing additional Africans to be born. Malthus, in the third edition of his Essay in 1806, wrote an appendix that responded to those arguments and made his opposition to slavery clear. Most of all he stressed the wretched condition of the slaves in the New World, and he gave a copy of his appendix to abolitionist William Wilberforce to use in the slavery debates. So on the number one issue of his time, Malthus made a concerted public attempt to be on the correct side.²⁵⁸

Many people portray Malthus as an evil guy who opposed the Poor Laws and was content to see people starve, if only so that nature’s mechanisms could equilibrate. This portrait is unfair.

²⁵⁸ See Hodgson (2009) and Drescher (2002) for general background. For Malthus on slavery in the Essay, see Malthus (2016 [1803], pp.144-146), where he considers whether an increase in the number of slaves has to lower the number of non-slaves accordingly (it does not).

It is true that Malthus was critical of the English Poor Laws, with the degree of criticism depending on which year and which edition of the Essay you consult. I'll return to whether those criticisms were well-considered, but keep in mind Malthus had a well-developed alternative plan for poverty relief. Above and beyond moral restraint and his other ethical recommendations, Malthus favored the following policies:

- Abolition of the Settlement Laws, which restricted aid to those born within the parish and thus hindered labor mobility
- Creation of a freer market in labor more broadly
- Subsidies to bringing new land under cultivation
- Trade policies to keep food in Britain for emergency times
- Country workhouses as a medium of assisting the distressed, paying them at going market rates

Later in his career, after the macroeconomic disruptions of the Napoleonic Wars, Malthus also stressed the maintenance of adequate aggregate demand to limit poverty problems (more on this later), and he also favored the limited use of government public works to put people back to work.²⁵⁹

This chapter is not the place to adjudicate whether Malthus's measures would have been better or worse than the Poor Laws, but his proposals were plausible substitutes, especially given the knowledge base in Malthus's time. So even on the poverty issue, Malthus was not a meanie, nor did he try to argue, using economic ideas, that policy cannot improve the lot of the poor. Quite the contrary, and I dare say that many contemporary economists might judge Malthus's

²⁵⁹ On all this, see Winch (2013, pp.43-49, p.132 and passim) and both the 1798 and 1803 editions of Malthus's Essay.

alternative recipe as superior to the Poor Laws, even if they might prefer to keep the Poor Laws as well.

Note also that later in life Malthus dropped his earlier opposition to the Poor Laws. In a series of letters to Thomas Chalmers, Malthus wrote that Britain would do better to improve the administration of the poor laws it already had, rather than seeking to abolish them outright. He wanted to combine that change with a better system of education and “moral superintendence.” He continued to insist that allowing the free circulation of labor (which had been limited by residency requirements) was of the utmost importance.²⁶⁰

Malthus is a meanie in the following sense, however. He was unwilling to pay people to “do the wrong thing,” even if the payment might alleviate their misery in the short term. For instance, in the 1803 edition of the Essay he opposes paying higher subsidies to married couples than to bachelors. He certainly sees that the married couples need the money more, but he argues this only encourages marriage and subsequent increases in the population. He thinks the subsidy will prove counterproductive in the longer run, and thus he adamantly opposes it, and he is not so focused on the short-term misery that such a subsidy might alleviate. Malthus also strongly opposes making support payments to illegitimate children, as he believes that will only encourage that practice and worsen the general state of mankind. In that regard, he is today what we might call a meanie, though I would say he was simply wrong in seeing a clash between short-run and long-run human well-being that wasn't actually there.²⁶¹

²⁶⁰ See James (1979, pp.449-450).

²⁶¹ See Malthus (2016 [1803], Book IV, Chapter X, pp.446-447, and pp.422-426 on illegitimate children and why they should not receive public support).

It is interesting, though, to see just how self-reflective Malthus could be. He states clearly that liberty might not flourish in a society where the poor are always blamed for their own state of affairs. It could become too easy to blame them for bad outcomes and then oppress them. Malthus recognizes this danger, but he sees another potential problem on the other side of the ledger. If the rulers are always blamed, there will be tendencies toward revolution and disruption, and then new despotisms, arising from the changes in power. Malthus fears that too, making several indirect references to the French Revolution, and several direct references to Thomas Paine. Overall Malthus believes it is simply better for the analyst to tell the truth, so that society, and the poor in particular, can learn the value of moral restraint, and in that situation their liberties will be most properly protected.²⁶²

As for his 1803 analysis of the Poor Laws, if you dig into the details, he did think the supply of food was relatively inelastic, and he states this repeatedly and explicitly in the 1803 edition. Therefore if you boosted cash welfare payments to the poor, the price of food would go up and you would shift around demand, but not feed many additional people. That assumption was wrong, and of course we saw immense increases in food supply through the nineteenth century and beyond. Malthus's analysis of the Poor Laws thus was seriously flawed, and furthermore this error reflects the larger error running throughout Malthus's thought, namely that he did not foresee the potential for progress embedded in his time. Still, that error is quite distinct from Malthus not caring about the poor.²⁶³

This point, however, does return us to one of the biggest analytical problems in Malthus. His 1803 edition was a much more sophisticated and qualified model than what he put forward in the

²⁶² See Malthus (2016 [1803], Book IV, Chapter VI, pp.413-421).

²⁶³ See Malthus (2016 [1803], Book 3, chapter V, pp.313-322).

1798 edition. Yet when it came to analyzing concrete policy issues, typically he fell back on the simpler model, and in that sense he gave back the analytical advances he made.

To return to the meanness of Malthus question, Malthus presents his general views on government intervention in the early pages of his Principles of Political Economy. He decidedly opposes laissez-faire views and states that the benefits of good government interventions are so high that we have to be very careful to identify and implement them. Furthermore, to ascertain the correct course for governments, study and judgment are necessary from start to finish, if only to ascertain when previous government interventions are to be replaced or repealed. Malthus is very much a fallibilist and a pragmatist, and from that base he is very willing to entertain the idea of government interventions to help the poor. He also stressed, again later in his career, that education was capable of easing the pressures of subsistence and improving living standards, even if not all of those gains will prove permanent. Even his earlier opponent in debate, free-market economist Nassau Senior, admitted he had misunderstood this about Malthus.²⁶⁴

Malthus closes the 1803 edition of the Essay by insisting on two things. First, “The structure of society, in its great features, will probably always remain unchanged.” By that he meant there would always be workers and landlords, which indeed is true. The second point is simply that improvements in the human condition are indeed possible, they will however not match the rate of technical change, but they will not all be reversed, and they are very much worth fighting for.

²⁶⁴ See for instance Malthus (1820, pp.13-17). On education, one illustrative discussion is Malthus (2016 [1803], pp.435-436). See also the survey and assembled remarks in Hollander (1997, p.914), which covers the exchange with Nassau Senior as well, and Senior admitting this about Malthus.

If you think of Malthus as only a theorist of doom and catastrophe, you should start by turning to the very last page of the Essay.²⁶⁵

If we read Malthus on imperialism, it is a more complex story but he had no trouble seeing the downside of colonization and settlement. He recognized and indeed emphasized that the arrival of Western settlers would place food and subsistence pressures on native populations. For one indicative statement: “There are many parts of the globe, indeed, hitherto uncultivated, and almost unoccupied; but the right of exterminating, or driving into a corner where they must starve, even the inhabitants of these thinly peopled regions, will be questioned in a moral view.” Keep in mind that for Malthus the initially high living standards of the settlers also would dissipate over time, as eventual population growth would bring subsistence problems to them as well.²⁶⁶

To be clear, Malthus was not an egalitarian in the contemporary sense, nor did he adhere to modern standards of discourse. He repeatedly referred to the inhabitants of other, poorer territories as “savages,” and he did not believe they would catch up to European standards of living. He also wrote glowingly about the role of the East India College in training wise British bureaucrats who would rule over India, through the medium of the company. Some of that rhetoric is sufficiently over the top you have to wonder if Malthus was simply protecting his chaired professorial position at the East India College, but still his writings on the college show no real signs of skepticism toward the British role, and the role of the East India Company, in ruling India.²⁶⁷

²⁶⁵ On education, one illustrative discussion is Malthus (2016 [1803], pp.435-436, and p.473 at the close for possibilities for improvement).

²⁶⁶ See Bashford and Chaplin (2016, p.86). And see Malthus 1803, p.6.

²⁶⁷ See Bashford and Chaplin (2016, pp.86, 96-98). On the East India College, see Malthus (1817), reprinted 1970.

When it came to Ireland, however, Malthus was a strong critic of British settlement policies. He visited Ireland in 1817, was appalled by the poverty, and wanted to see superior agricultural productivity, a better system of manufactures, and improvements in education. He did not favor Irish independence from Britain, but wished to see Catholics and Protestants treated on an equal footing. This again belies the notion of Malthus as meanie, and supports the notion that his actual analyses of real world policies were multidimensional rather than based on considerations of population alone.²⁶⁸

Malthus, like Keynes, was extremely concerned with international peace and its economic preconditions. He lived through the very destructive Napoleonic Wars and he was called by Robert Southey a “peacemonger.” Malthus himself believed that recognizing his principles of population, and acting in accord with them, would make wars for food and territory less necessary. He also worried that having a large number of hungry, unemployed young men would make it easier to raise destructive armies. These connections between domestic and international policies represent yet another way in which Malthus and Keynes were kindred spirits. Keynes, of course, in his own Economic Consequences, argued in chapter two that European politics leading up to World War I had been unstable because of the pressures of populations on food supplies, which gave rise to national rivalries.²⁶⁹

Finally, Malthus did briefly consider eugenics in his Essay. He didn’t understand Darwinian evolution theory at that time, but he was familiar with techniques of animal breeding. In a very

²⁶⁸ See James (1979, p.293). See also Bashford and Chaplin (2016, pp.219-220). For the originals, see Malthus’s 1808 and 1809 Edinburgh Review pieces, “On the State of Ireland (I)” and “On the State of Ireland (II),” both reprinted in Wrigley and Souden (1986).

²⁶⁹ See Winch (2013, pp.52-53), and see Mayhew (2014, p.168) on this Keynes-Malthus connection.

short remark, he imagines that such techniques might be applied to human beings. Nonetheless he objected that would mean condemning some humans to celibacy, and furthermore he thought it would be easier to select for physical characteristics, such as size, strength, and complexion, than for intelligence. Given that he understood nothing of modern genetics, that discussion seems entirely reasonable and even ahead of its time. And it probably was more liberal than the views later held by Keynes.²⁷⁰

Chips off the workbench

Malthus's economic pamphlets are consistently well-written, reasonable, and they draw on both theory and empirics. In those writings he covered the Poor Laws, free trade, the theory of rent, the East India College, and other topics. He is smart, balanced, and empirical throughout, except on the East India College (his employer), where he seems obviously biased toward the positive side.

Consider international trade, an issue where Malthus was far ahead of his time. When we think of the classical economists and international trade, our minds turn to David Ricardo and the theory of comparative advantage. In Ricardo's classic example, England and Portugal can each lower their costs, and produce more total output, by trading cloth and wine with each other. Countries can produce more of what they can do more cheaply, and trade with each other to increase the total surplus. More cloth and more wine. Wonderful!

But Malthus took a different tack. Without denying the Ricardian mechanism, he claimed it was not "the larger half" of the benefits of trade. Yes, some goods and services we can get more

²⁷⁰ See Mayhew (2014, p.161), and in the Essay see Malthus (2016 [1803], p.287).

cheaply from trade, but the real value comes from value obtaining goods and services we would not have had at all. Malthus mentions silk, cotton and indigo, tea, coffee, tobacco, port, sherry, claret, champagne, almonds, raisins, oranges, lemons, spices, and many medicines as entirely new goods brought to England by international trade. Without trade England would not receive those goods at all, and for Malthus that was more important than Ricardo's machinations about comparative advantage and getting pre-existing goods at cheaper prices.²⁷¹

Now fast forward to the 21st century and to the debates over the gains from trade and correspondingly the costs from trade restrictions. It turns out that the highest gains from trade come from the introduction of new goods altogether, just as Malthus had suggested. Yet Ricardo still gets most of the attention on trade theory. Malthus remains underrated.

Understanding Malthus on trade is essential to grasping his critique of the Poor Laws. As mentioned above, he saw the Poor Laws as sloshing around money from one group to another, rather than boosting the food supply. But he did not retreat into defeatism. Instead Malthus favored a form of trade protectionism that would limit the outside import of corn [grain] *and* subsidize the domestic production of corn and also the export of corn. The bounties for export would make sure the domestic supply was robust, and that supply could be redirected to domestic demand in times of need. In similar fashion, restrictions on corn imports would make sure that the foodstuffs did not end up all being produced in foreign countries. Malthus was notably suspicious that other nations would allow grain to be sent to England if a general crisis were to hold. On top of those trade restrictions, Malthus entertained the idea of the government storing some of that food in granaries, to use it in times of dire need.²⁷²

²⁷¹ Malthus, *Principles*, pp.461-462.

²⁷² See Malthus (2016 [1803], Book III, chapters IX and X, pp.349-369, and see also his 1815 pamphlet "The importation of foreign corn: the Grounds of an Opinion," reprinted Malthus

In sum, taken together this is all a program for permanent excess capacity in the agricultural sector, so that there is always more grain at hand in the domestic market. It is a kind of “industrial policy,” just as recently many governments acted to ensure the domestic production of masks, vaccines, and other medical supplies in their countries, due to the emergency of the pandemic.

This deviation from free trade ideals was heretical at the time, and it directly contradicted the prevailing Ricardian doctrine of comparative advantage through free trade. Whether or not you agree, it shows Malthus working to solve the poverty problem, and through boosting real resources at hand rather than redistributing cash. This kind of insight later became a staple of economic reasoning, and it continues as a centerpiece of modern welfare economics. In modern language, you also could say that Malthus was using trade restrictions to substitute for missing insurance markets, namely that the domestic food supplies and granaries were there to protect against negative shocks to the food supply, the major risk in the Malthusian model and a major risk at the time.

Keep in mind this is not just a minor deviation from laissez-faire and free trade ideas. Given the import of food for the economy back then, its share in GDP, and its import for human welfare, that was a *major* deviation from invisible hand principles.

Malthus in this regard also was a precursor of Kenneth Arrow and other more recent economists who have analyzed the shortcomings of private insurance markets. Malthus’s overall focus was on the basic instability in the relationship between food and population, which he saw as running

(1986, pp.151-174). For useful background see James (1979, pp.249-263). For a survey of Malthus on protection, see Hollander (1997, chapter seventeen).

throughout human history. With that problem in mind, it is no surprise that he focused on questions of volatility more than others, and that he realized societies near subsistence often do not have good means of insuring against external shocks.

On one hand, it is easy to say that Malthus was wrong about protectionism, as most nations have relied on international trade to procure themselves cheaper and more abundant foodstuffs. A lot of the actual famines, such as in Maoist China, were accompanied by attempts at domestic self-sufficiency in the food supply and even restrictions on food transport within China. In defense of Malthus, however, he was not arguing for nationalization of the food supply or even central planning, but rather a series of taxes and subsidies to shift the equilibrium at the margin toward greater national self-sufficiency for Britain. It remains the case that today countries use subsidies and tariffs to boost their margin of self-sufficiency with their food supplies. While many economists object to such policies, it would be wrong to consider them mere archaic curiosities. Malthus laid the groundwork for those approaches, which remain today in the European Union, Japan, the United States, and many other countries.

A broader assessment of Malthus also should consider his writings on aggregate demand macroeconomics. These writings were hardly a “chip,” as they were a major preoccupation of his, especially after the Napoleonic Wars, and they take up almost one-third of his Principles of Political Economy and much of his correspondence with David Ricardo. Nonetheless, they are not what Malthus is known for to the well-educated public, or even to most economists, and thus they fall into this section.

The background is that Britain came out of the Napoleonic Wars in bad macroeconomic shape. The fiscal burden of the fighting forced Britain off the gold standard, and led to high rates of price inflation. But after the war was over, the British wished to restore the gold standard, which

they did in stages from 1819 to 1823. The transition, however, was rocky, much as Keynes later faced a problematic British transition back to the gold standard in the 1920s. One hundred years earlier, in the 1820s, the British returned to gold convertibility of the pound, but at an earlier parity, which did not reflect the lower real value of the currency in the meantime. The result in both centuries, as economic theory would predict, was deflationary pressure on the broader economy (if currency is overvalued by law, people will hold it rather than spending it) and in turn a steep recession.

Malthus was refining his macroeconomic ideas in such an environment. Like Keynes, he argued insistently that shortfalls in aggregate or “effective” demand are a major cause of business crises, and indeed that is what he witnessed in the latter part of his life. The high value of the British pound, created by the postwar peg, in essence meant that prices had to fall to validate such a high gold content of sterling. To the extent a pound was worth a high amount of gold, that encouraged people to hold British pounds, rather than spending them on goods and services, thus bringing about deflationary pressures.

Malthus did not present any account of the international or exchange rate mechanism at work here, but he did notice the deflation and its economic costs. In this regard he was a significant forerunner of modern macroeconomics, including Keynesian macroeconomics. Malthus’s account was underdeveloped, and his talk of a “general glut” of commodities was confusing, but the focus on aggregate demand was a major contribution, and it went well beyond the more mainstream analysis of David Ricardo at the time.

In his 1820 Principles of Political Economy, Malthus recognizes the Say’s Law truth that commodities are always traded against each other; Say’s argument had been an attempt to argue that a general glut of goods was impossible. Yet Malthus argues there is no guarantee that such

trades take place at prices that will encourage a *next* round of production. He is fuzzy on why not, other than noting an excess supply of commodities, and thus a shortfall of “effective demand,” but still he made a very good point, suggesting that aggregate demand problems do not vanish automatically.²⁷³

Malthus’s most important account of deficient aggregate demand is broadly similar to that of Keynes in the General Theory. Malthus notes that production can lead to capitalist accumulation which in turn gets paid out to workers as wages. Yet there is no guarantee those workers will spend those funds on commodities in the marketplace, which again could lead to a demand problem. Again, there is the danger that the next round of commodities production will not be forthcoming, setting off a depression or downturn. Malthus, however, did not seem to grasp the notion of an excess demand for money, and in that regard his understanding fell short of that achieved by John Stuart Mill, as discussed in the previous chapter, not to mention many later macroeconomists.

In the General Theory Keynes mentions Malthus a few times. In chapter three on “Effective Demand,” Keynes presents Malthus as an early economist who saw the problem of deficient effective demand, but was unable to explain clearly how deficient aggregate demand could come about. Keynes later repeats the citation to Malthus in his chapter on “Notes on Mercantilism,” citing some letters by Malthus to Ricardo. In defense of Malthus, a lot of the bells and whistles of the earlier Keynesian model, such as how savings may or may not translate into investment demand, have not survived in the most commonly used aggregate demand models. So we shouldn’t take too many points away from Malthus just because he didn’t anticipate each and

²⁷³ On all this, and what follows, see Malthus, pp.351-361.

every feature of Keynes. Overall Malthus certainly understood that aggregate demand problems were both possible and significant, and most of his contemporaries could not grasp this at all.²⁷⁴

The gem of Malthus's odds and ends was his correspondence with his very good friend David Ricardo. These letters started on 16 June 1811, when Malthus introduced himself to Ricardo and posed some questions about the determinants of foreign exchange rates. For years Britain's two greatest economists wrote back and forth about the major economic issues of the day, including the bullion controversy and British monetary policy, free trade, land rent, the rate of profit, and depressions and whether there can be a general glut of goods in the marketplace (Ricardo no, Malthus of course yes).²⁷⁵

In these letters the two are clearer and more engaging than in most of their written works, and reading these exchanges is one of the very best ways to learn what classical economics was all about. They are to the point, and determined to aim at communications rather than debate. The correspondence is a case study in healthy dialog, and it would serve as a good model for anyone who today engages on social media. The politeness never seems feigned, and they are always working at arranging visiting time to discuss the matters of the correspondence at greater length. Of course at that time transportation was not easy, so this reflected a very real commitment to the relationship and to answering the questions at hand. They also pretended that their spouses liked each other, and maybe they really did.²⁷⁶

²⁷⁴ Keynes (1936, p.32, pp.362-363). Keynes cites Malthus letters from July 7, 1821 and July 16, 1821.

²⁷⁵ You will find these exchanges (mostly intact) in volumes 6-9 of Ricardo's collected works, available on-line through Liberty Fund.

²⁷⁶ For a treatment of the Ricardo-Malthus exchanges as a case study in how to debate and hold a discourse, see Maclachlan (1999).

For all the contestation, they remained on the best of terms, and Malthus once wrote: “I never loved anybody out of my own family so much.” Or consider Maria Edgeworth, who knew them both well, she wrote: “They hunted together in search of Truth, and huzzaed when they found her, without caring who found her first, and indeed I have seen them both put their able hands to the windlass to drag her up from the bottom of that well in which she so strangely loves to dwell.” Are those not the kinds of qualities we would wish to see in the GOAT?²⁷⁷

Although this correspondence improved Malthus analytical powers and clarity of exposition, it also brings out one very striking feature of his career. Of all the GOAT contenders I consider, Malthus is the only one who did not do his greatest work embedded in an environment where he was working with other top economists. His first edition appeared in 1798, and the more sophisticated version of the argument was published in 1803. At that time, Malthus was not surrounded by a circle of top-flight economists. Adam Smith was a loner in some ways, but he had David Hume, who as a thinker was worth more than a truckload of economists, and furthermore Smith was embedded in the very center of the Scottish Enlightenment. Malthus, in contrast, was a loner economist and he had nothing like the circles of Keynes, Hayek (the whole Austrian school, and then the University of Chicago), Friedman, Samuelson, or many others. That is yet a further testimony to the powers of his intellect.

Finally, I might make one further point about Malthus’s Principles of Political Economy. I’ve been praising that book throughout this chapter, and indeed it is quite good and it remains underrated, except perhaps by historians of thought. Still, I don’t think the book as a whole strengthens Malthus’s case for GOAT. GOAT is more than just “very good and still underrated.”

²⁷⁷ See Keynes, *Essays in Biography*, p.134.

If you read the *Principles* from start to finish, its 522 pages of text, it just doesn't feel like you are reading *the greatest economist of all time*. I have not many criticisms to make of Malthus's economics there, but in terms of overall impressiveness, scope, breadth and depth of mind, and sheer outright brilliance, it seems only to be very, very good. Not GOAT. Unlike for instance Adam Smith or John Stuart Mill, it does not seem to repay multiple rereads or to induce the reader to form study groups around the book. John Stuart Mill in fact recognized this when he wrote: "When it has been our fate to peruse any of Mr. Malthus's lucubrations on the more intricate subjects of political economy, we have remarked, that although they are in general sufficiently obscure, yet if there is one part of them which is more obscure than another, it is where he attempts anything like explanation of illustration...so soon as he begins to speak of throwing light upon a subject, from that moment we lose all hope of ever understanding it."²⁷⁸

And that for me is a big argument against Malthus as GOAT. If he can't show his GOAT-ness in 522 pages in the mature phase of his career, maybe he isn't GOAT after all.

Along similar lines, I am not so often *inspired* reading Malthus's pamphlets or other economic writings. They very often seem judicious and sound, and of much higher quality than one might have expected for the time they were written. But they don't quite succeed in building their own conceptual frameworks and then imposing those frameworks on my mind, the way say that Smith, Keynes, and Hayek have done. Along this dimension, once we get past the population work, the writings of Malthus seem a little behind some of the other writers on the short list for GOAT.

²⁷⁸ For Mill on Malthus, see Mill (2006 [1824], p.34).

What else did Malthus do?

In 1805, at the age of 39, Malthus held the first chair of Political Economy to be established in England (“Professorship of Modern History and Political Economy”), at the East India College. Malthus thus led the way for all of the other academic economists who would take this route. He also gave a lot of sermons, and furthermore Malthus also lived in accord with his own theoretical recommendations, or so it would seem. As for his “moral restraint,” Malthus had three children, a son and two daughters, but he did not marry until the age of 38, when he had a stable income. He did not, however, have any grandchildren whatsoever, and in this regard Malthus’s own life ran at odds with Malthusian theory. Whether this was due to the vice or moral restraint or his descendants, or to other factors, I have not been able to ascertain.²⁷⁹

Was Malthus a nice guy? Keynes cites his supposed temperance and prudence and steadiness. We’ll never know, but the available evidence is in Malthus’s favor. Malthus also had a harelip, a cleft palate, and a stutter. If you are interested in stories of disabled or disadvantaged individuals who made good, you can add Malthus to that list. He grew up in an age where British political economy was growing and evolving rapidly, but still he can be thought of as an “out of nowhere” thinker.²⁸⁰

²⁷⁹ See Sraffa (2004 [1951], p.xx.

²⁸⁰ On Malthus and the harelip and cleft palate and stutter, see Stimson (2018, pp.xii-xiii). And see Keynes, *Essays in Biography*, Pp.112-113. For a look at Hung Liang-Chi, an 18th century Chinese contemporary of Malthus, who had some similar ideas, see Silberman (1960). Yet there is no evidence Malthus knew of this connection and he did not read Chinese.

My biases with respect to Malthus

Even after genuine soul-searching, I am still not sure if I have pro-Malthus or anti-Malthus biases when it comes to GOAT. In my teen years I read the *Essay* and was very much convinced that Malthus was dead, flat out wrong. I was under the spell of Julian Simon and I was very much a population optimist and I suppose I still am. I think – with some institutional changes – the earth can support many more people than is currently the case. I see also – and saw back then – that centuries of recent history have run strongly against the Malthusian model.

Yet another part of me is fairly contrarian, most of all with respect to my earlier views. If I used to be a strong anti-Malthusian, the pro-Malthusian perspective will feel more alive and vital to me. That in turn will make me more sympathetic to Malthus as GOAT. Just think what a fun shock it would be to cite Malthus as the true GOAT! Oh, how irritated so many of my fellow economists would be. Furthermore, Malthus as GOAT would be a kind of environmental insurance. If environmental problems did dominate our future, Malthus might then in fact be GOAT and I would have some psychological recompense to make up for my home being flooded and the crops being parched, and for the trip back to a near subsistence lifestyle.

On net, I suspect my biases are very modestly pro-Malthus. Yet my skepticism remains about some of the major conclusions, and I simply cannot say that he is one of the better guides to understanding the last two hundred plus years of our economies.

And with that observation we must move on to Adam Smith.

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CHAPTER 8

Is Adam Smith the obvious winner?

Smith is hard to treat in this survey precisely because he seems so easy. Isn't it *obvious* that he is GOAT? Wasn't he the first real systematic economist? Doesn't a lot of *Wealth of Nations* hold up pretty well? What could be more important than the ideas of capitalism and the division of labor?

Don't people at Mont Pelerin Society meetings still wear Adam Smith *ties*? That said, Smith is so general that he often appeals to centrists and also leftists, for instance as represented by Emma Rothschild and other left-wing Smithians. They find in Smith some starting points toward a more humane path for capitalism.

I will return to these points and more, but first I would like to shake up your understanding of Adam Smith. I'll start by considering some of the latter parts of *Wealth of Nations*. The book is so long that the earlier sections, or the famous sections on matters such as the invisible hand or mercantilism, are by far the most widely read. The deeper reality is that Smith developed an

approach to education and political philosophy that merits comparison with Plato, Tocqueville, and other world-historic thinkers on these topics. That will help us to place *Wealth of Nations* as a whole, namely as a defense of the notion of a fully modern society, economy, and polity. To this day Smith's case may be the best such defense, or at least standing in the very top tier of such efforts. That indeed is high praise for Smith.

So we'll start by seeing that Smith is a deeper social thinker than what he is usually given credit for. I'll then move on to consider some strengths and weaknesses of Smith as an economist.

Smith as social and political thinker

Most of all, Adam Smith was concerned with whether the newly developing British and indeed also European world of the eighteenth century could work out, and also whether it could prove superior to the world of antiquity. On one hand, he observed the material and acquisitive pursuits of people in a capitalist, commercial society, which were running rampant during his time. But he also inherited philosophical concerns from the civic republican tradition and from Christianity about virtue and good behavior. How was this entire picture supposed to tie together? Was the "modern society" of Smith's time sustainable? Desirable? What did it consist of? *The Wealth of Nations*, and also most of Smith's other writing, makes more sense if you read the works with these questions in mind.²⁸¹

²⁸¹ Fitzgibbons (1995) is one source considering Smith as a move away from earlier Christian ideas and ideas of antiquity. See also Sagar (2022) for a broad look at Smith as a theorist opposed to "domination." For a more left-wing view of Smith, more critical of the market economy, see Rothschild (2001).

If you read the closing section of *Theory of Moral Sentiments*, Smith makes his priorities clear: “I shall in another discourse endeavor to give an account of the general principles of law and government, and of the different revolutions they have undergone in the different ages...” He was referring not to what later became *Wealth of Nations* but rather to some works he burned before his death because he was not happy with them. The point is that big-picture thinking – and not just about economics – was in his bones from the beginning. You can find this same concern and indeed obsession with government, law, security, and historical development in Smith’s *Lectures on Jurisprudence*.²⁸²

Let’s now turn to *Wealth of Nations*, which counts as Smith’s primary effort, most of all for his status as an economist. As we move further into the book, especially Book V toward the end, we see how much Smith was preoccupied with the sovereign, war, and revenue for the state. He presents “The art of war” as “the noblest of all arts,” and also “one of the most complicated.” That is one reason why these discussions come toward the end of the book. The book’s very title of course indicates a concern with the wealth of *nations*, not individuals per se, and in this regard Smith is a little closer to the mercantilists than many of his defenders are keen to admit.²⁸³

The key mechanism for Smith was that the division of labor applies also to national defense, just as it does on other parts of society. Over time, wealthier societies evolve a separate class of soldiers who specialize in defending the nation and the use of arms. And for Smith this development is all-important. One of the key points of *The Wealth of Nations* is the superiority of standing armies, and how such armies enhance security, liberty and in turn prosperity. Smith argued this point at length, including with examples from the history of antiquity.²⁸⁴

²⁸² Smith (2009 [1759], Part VII, Section IV, p.403).

²⁸³ Smith, (2003 [1776], p.886).

²⁸⁴ See Smith, Book V, Chapter 1, “Of the Expences of the Sovereign or Commonwealth.”

Some of Smith's argument turned on the greater skill of a specialized army, but much of his argument concerned civilizing a broader polity and the resulting increasing returns to scale, a common theme throughout *The Wealth of Nations*. By increasing returns to scale, in this context, I mean the notion that a larger economy and polity has much more dynamic growth potential. Smith argued that standing armies not only protected the country, but also they were a means through which "a barbarous country can be suddenly and tolerably civilized." The standing army establishes law and the rule of law throughout the country, and it enables the improvements of state-building, with Smith citing Peter the Great of Russia in this capacity. Smith refers to standing armies as the instruments which allow all other laws and regulations, and about Peter the Great he notes: "The degree of order and internal peace, which that empire has ever since enjoyed, is altogether owing to the influence of that army." So while the economic machine of capitalism is very important, the state is needed to produce the political units that support larger market sizes.²⁸⁵

Note that this argument of Smith's ran directly contrary to many of the seventeenth and eighteenth-century critiques of standing armies. A longstanding British debate in the seventeenth century identified standing armies with the placing of power in the hands of the King, rather than Parliament. Later, in America, opposition to standing armies was a fundamental principle of anti-Federalist thought, which identified standing armies with tyrannical control of the population, first coming from the British but later wary of an independent American standing army too.

²⁸⁵ Smith, (2003 [1776], p.898). For general treatments on Smith, armies, and international affairs, see Minowitz (1989), Montes (2010), Sher (1989), and Wyatt-Walker (1996).

Smith was well aware of these arguments and he confronted them head on. He noted the dangers with standing armies and recognized that the standing army of Caesar destroyed the Roman republic, and that the standing army of Cromwell moved against Parliament. Nonetheless he argued as such:

“But where the sovereign is himself the general, and the principal nobility and gentry of the country the chief officers of the army; where the military force is placed under the command of those who have the greatest interest in the support of the civil authority, because they have themselves the greatest share of that authority, a standing army can never be dangerous to liberty. On the contrary, it may in some cases be favourable to liberty. The security which it gives to the sovereign renders unnecessary that troublesome jealousy, which, in some modern republics, seems to watch over the minutest actions, and to be at all times ready to disturb the peace of every citizen.”²⁸⁶

In other words, it is either a secure army, well able to protect the rule of the magistrate, or the surveillance state to keep down the opposition. (Shades of contemporary China!) In this “second best” comparison of imperfect alternatives, Smith will opt for the standing army. When it comes to the political opposition, Smith notes that with a quality standing army the sovereign “...can safely pardon or neglect them [political opponents], and his consciousness of his own superiority naturally disposes him to do so.”²⁸⁷ For Smith, the choice is not liberty vs. anti-liberty per se, but rather how we can make it incentive-compatible for the sovereign to tolerate opposition. That requires a certain amount of political security.

²⁸⁶ Smith, (2003 [1776], pp.898-899).

²⁸⁷ Smith, (2003 [1776], p.899).

Smith also lays out how the logic of standing armies develops with economic growth. He notes that national defense becomes increasingly expensive as societies advance. Wages must be paid, because the sovereign no longer can just draw upon readily available civilian militias. The invention of firearms is another significant development. The firearms and ammunition themselves must be paid for, plus the soldiers have to be trained and subject to discipline. Professionalization of the armed forces sets in. Smith is fully in favor of these developments, and his conclusion is decisive:²⁸⁸

“In modern war the great expence of fire-arms gives an evident advantage to the nation which can best afford that expence; and consequently, to an opulent and civilized over a poor and barbarous nation. In ancient times the opulent and civilized found it difficult to defend themselves against the poor and barbarous nations. In modern times the poor and barbarous find it difficult to defend themselves against the opulent and civilized. The invention of fire-arms, an invention which at first sight appears to be so pernicious, is certainly favourable both to the permanency and to the extension of civilization.”

As evidence that this issue really mattered to Smith, he also covered the topic of private militias in his earlier *Lectures on Jurisprudence*, dating from the 1750s but offering broadly similar conclusions as what Smith presented in *Wealth of Nations*. Smith saw standing armies as necessary for national defense once a society achieved a certain level of development. After a society moves away from hunters and shepherds and produces arts and manufactures, it is no longer the case that the entire society can go out to fight. Smith evinces an awareness of how standing armies may be a danger to liberty, but he argues for a very rigid and severe discipline for such armies.²⁸⁹

²⁸⁸ Smith, (2003 [1776], p.900).

²⁸⁹ For Smith on standing armies, see Smith (1982a [1750s]).

If you are looking to these passages to evaluate Smith as an economist, he saw and indeed stressed the import of what we might now call *the economics of defense*. Of all the GOAT contenders he is first in line on this topic (Keynes would be a close second), and furthermore he was fundamentally correct in this emphasis on national defense.

If you don't think this and related points are the primary message of *The Wealth of Nations*, just recall Smith's insistence that "...defence is of much more important than opulence."²⁹⁰

The entire issue of militias was highly controversial in the Scotland of Smith's time and deeply rooted in Scottish history. Dating back to medieval times, there was a tradition of nobles raising infantrymen from amongst their people. There was a martial social structure, based on a kind of military feudalism, and a weaker central state than in either England or France. These militias, for better or worse, were an essential part of the Scottish social structure and maintenance of order. So in siding against such militias Smith in essence was claiming that the Scottish polity needed a new foundation.²⁹¹

There is here a connection between the standing army/militia issue and the union between Scotland and England. A local militia drawn from the people will be precisely that, namely a group of local individuals, tied to their immediate community. A standing professional army will, over time, hire both English and Scots, just as the English standing army will hire both English and Scots. A decision to opt for the standing army is not so easily separated from a decision to embrace union. Smith of course ended up going further yet and favored a much larger union with

²⁹⁰ See Smith, (2003 [1776], p.583), Navigation Acts section. For Smith on international relations more generally, see Wyatt-Walker (1996).

²⁹¹ See for instance Robertson (1985, pp.2-3, passim).

the English-speaking colonies of North America and also with Ireland, just as England had unified with Scotland.²⁹²

We again see the importance of Smith's distinction between the local and the global perspective. A local perspective might induce us to seek protection in our smaller communities, from the nearby "tough guys." Smith looked beyond that point of view to see the greater efficiency of much larger political units, including as a means of protecting localities. By promoting the standing army idea, Smith is urging his contemporaries, in geopolitical terms, to think *much* larger than what they had been doing. Furthermore, he understood that the standing army idea was favorable for the construction of significantly larger political units, again bringing us back to the economies of scale idea and also anticipating much of the history of the nineteenth and twentieth centuries.

Smith of course did not create the standing armies debate. After the Glorious Revolution of 1688, the Nine Years' War broke out, which caused the English army to swell to at least one hundred thousand men. As the war wound down in 1697, there was a "Standing Army Controversy" of 1697-1698, and this became a central issue in the politics of many locales, most of all England. Later in the eighteenth century the debate spread to the American colonies as well, starting with an opposition to the idea of a British standing army in the colonies but also leading to a more general condemnation of the idea.²⁹³

As for militias, Scotland faced the possibility of invasions from the continental powers, most notably France and Spain, in 1759 and again throughout some of the 1770s. There was plenty of

²⁹² For an argument that Smith was making a rhetorical point with his North American union advocacy, and not entirely sincere, see Klein (2023b).

²⁹³ On the English debates and their background, see Schwoerer (1974), who discusses the colonies as well.

talk in London and Edinburgh of forming local Scottish militias to forestall such events, and some modest efforts were made in those directions. Smith was well aware of these issues.²⁹⁴

Scottish commentators jumped into these debates, and early, most notably Andrew Fletcher of Saltoun in his 1697 *A Discourse of Government relating to Militias*. Fletcher presented a case for a Scottish militia, albeit under joint British command, as a means of obtaining both national security and virtue for Scotland. There was to be a universal military draft for all males. Smith, in part, was responding to Fletcher in his discussion in *Wealth of Nations*, but the response was on a broader plane than militias vs. standing armies alone.²⁹⁵

Like Smith, Fletcher tied in the militia to a broader conception of the nation, though he (consistently) took many opposing points of view. He opposed the 1707 political union with England, he was suspicious of the survival of virtue in a commercial republic, he more often looked to the past, and he worried that London would become too large and too dominant a city in any political union (hardly a new Scottish concern). He even favored a form of mandatory feudalism for the Scottish poor. Fletcher's critique of standing armies, and defense of militias, thus differed greatly from the more libertarian vision of John Trenchard. Fletcher had few libertarian inclinations, rather he thought his proposals were necessary for national defense, in part because he didn't think Scotland had the fiscal capacity to pay for a modern army of that time. Fletcher was looking backwards and Smith was seeing ahead.²⁹⁶

²⁹⁴ See Robertson (1985, pp.160-162).

²⁹⁵ For broader context and background, see Robertson (1985, passim but in particular p.15 and chapter two). Note that Fletcher was published in Scotland only in 1698, and some sources give that year as the publication date of this book. On the complexity of David Hume's views on standing armies, see Robertson (1985, chapter three).

²⁹⁶ In addition to Fletcher's own writings, see Robertson (1985, chapter two, and on the fiscal point p.31 and on mandatory feudalism p.32). On the more libertarian critiques of standing

Fletcher's personality seemed to be the opposite of Smith's. He has been described as "A man of temper and violence," he was a constant traveler, deeply involved in politics, and he once killed a fellow soldier because of a quarrel over a horse.²⁹⁷

Adam Ferguson was another Scottish writer largely on the militias side of the debate. His essay on civil society anticipated many Smithian themes on the division of labor and also historical evolution. Yet on the militias issue Ferguson pursued his own path, siding with neither the ancients nor the moderns. As I read Ferguson, he is most of all worried about the possibilities of despotic military states and imperial republics, but in a modern rather than ancient version. He feared the possibility of an enduring condition of military government. You could say that Ferguson feared tyranny more than Smith did, and thus he was more skeptical of the standing army idea. Unlike Fletcher, he was not entranced by hokey notions of antiquated civilian militias, rather he saw the militias as a vehicle for a new kind of public service nobility, one that would spread appropriate notions of honor and esteem through the government and limit abuses of power.²⁹⁸

Scottish church leader Alexander Carlyle wrote a direct response to Smith and also defended the militia notion in his *Letter to the Duke of Buccleugh on National Defence*, published two years after *Wealth of Nations*. Carlyle argued, in part, that the division of labor was not so far advanced that ordinary citizens could not be trained to fight in a few months' time. He did not oppose standing armies altogether, and in fact thought the difference between standing armies and

armies, typically from England, see Schwoerer (1974). On the standing army debate more generally, see Pocock (1975).

²⁹⁷ See Robertson (1985, chapter 2, and p.22).

²⁹⁸ On Ferguson, I am indebted to the excellent book McDaniel (2013), starting with pp.11, chapter six, and p.215. See Ferguson (1756) for the original discussion.

militias was overrated. At the end of the day, people still had to be trained to fight. The problem of national defense was thus a kind of problem of education, and the mere label of “standing army” cannot solve that problem by waving a magic wand. While those are good points, Carlyle may have missed just how much Smith was defending a social order, including for the future, that was fundamentally different from the societies Carlyle had in mind.²⁹⁹

In sum, when it comes to standing armies Smith is at his most radical and progressive. It is a central feature of his thought.

Smith vs. Plato on education

The other “most important” part of *Wealth of Nations*, which follows directly on the discussion of national defense, is the analysis of education, which in turn is related to Smith’s views on religion and the church. Here we see how clearly Smith is trying to fit all the pieces together, namely showing the sustainability of the prosperity of a modern commercial society, responding to Plato and the ancient Greeks, and also integrating *Wealth of Nations* with *Theory of Moral Sentiments*. It is the most thoughtful and philosophical segment of *Wealth of Nations*, and it is what makes the rest of the book hang together.³⁰⁰

Too often these sections are read as a quaint poke at the bureaucratic institutions of higher education in Smith’s day, including the “established” universities of Oxford and Cambridge. Yes, it is that too. But it is also Smith’s account of how a modern commercial society can hold together and overcome some of the most basic deficiencies of human nature, namely through

²⁹⁹ On Carlyle, see Robertson (1985, pp.226-227), and see T.M. (1778) for the original.

³⁰⁰ Fitzgibbons (1995, chapter 11) has a good general treatment of Smith on education.

good incentives for commercialized teaching and instruction. When it comes to the development of human character, the invisible hand still suffices.

Smith starts his discussion of higher education with a treatment of incentives, arguing that it is not necessary to fund education from endowments. Rather it is better when the teachers have direct incentives to please their students. In particular, teachers should be allowed to collect fees from their students. The students, on their side, need the right to choose their instructors, rather than attendance to particular professors proscribed by the educational institution. Smith contrasts the effectiveness of private tutoring, for fees, with the established and endowed major universities of Europe, often created for ecclesiastical purposes and ill-suited for real learning. This entire discussion is suffused with Smithian themes of incentives, market prices, and moral hazard. In the absence of good incentives, we can expect instructional masters to slack and neglect their duties.³⁰¹

In the midst of Smith's education analysis comes his famous discussion of the alienating effects of market division of labor. Division of labor means that individuals focus more and more of their attention on a single, well-defined task. Smith feared that such market specialization would make people "stupid and ignorant." They would learn the work that is right before their eyes, but not develop a deeper understanding of society, and he might also be lacking in "tender sentiment" and "just judgment." Smith also goes into detail about how these "stationary" lives might lose courage and a sense of the adventurous, and the ability to engage in sustained physical activity. Such individuals probably are not well-suited to be soldiers. In sum, "His

³⁰¹ See for instance Smith (2003 [1776], pp.962-970). Smith also considers the education of women to be more practical than that of men, because women are not taught at endowed institutions; see p.984. On the history of Smith as a lecturer, see Ross (1984). For a history of Smith as a professor and also student, see Scott (1965). On Smith and the teaching of English literature, see Court (1985).

dexterity at his own particular trade seems, in this manner, to be acquired at the expence of his intellectual, social, and martial virtues.”³⁰²

We see here Smith’s fundamental fear about individual misjudgment, namely that individual perception is excessively “local,” namely that individuals may obsess too much over what is right before their eyes and neglect broader possibility. We now can see a new way that Wealth of Nations and Smith’s earlier Theory of Moral Sentiments hold together. Both are concerned with individuals being excessively narrow, short-sighted, and obsessed with local information at the expense of global information. Smith, by putting his alienation discussion into his treatment of education, showed he understood that all of life and all of work is an education of some sort, just as school and religion are. The real social problem is about the fundamental shaping of individual character.

For Smith, we cannot expect individuals to overcome the problems of excessively local perception – as I would describe it -- on their own. But their teachers can help them overcome it, and individuals can learn much more than what their factory jobs will teach them. Social understanding broadens accordingly, and for Smith this is another invisible mechanism that makes commercial society work. I don’t read Smith as being excessively optimistic about this educational process, but rather realistic. It will get people to know enough so that society may continue upon a tolerable course. And toward this end, Smith stressed the importance of subsidizing education for the lower classes, who may not have the money or the inclination to spend on education. One example he cites here are the parish schools of Scotland, where the local authorities and the parents jointly pay in to support the education of the child.³⁰³

³⁰² Smith, (2003 [1776], p.987).

³⁰³ Smith, (2003 [1776], pp.990-991). For a discussion of how Smith may have overrated the Scottish system in his analysis, see Paganelli (2015).

Smith also turns his attention to ancient Greece. He praises the education from that era for its achievements in gymnastics, martial virtue, and music. In his view, the Greek and Roman republics also taught reading, writing, and arithmetic effectively through “teaching for hire.”³⁰⁴

Immediately thereafter Smith levies his sallies against Plato and Plato’s theory of the good republic. He unabashedly praises the teaching of Plato’s opponents, such as Zeno, Gorgias, Protagoras, and Hippias. Those individuals taught philosophy for money and were much criticized by Plato’s Socrates for those actions. Smith embraces them wholeheartedly. Smith then goes further and suggests that Plato himself was funded by the fees of those who were studying with him, as he suggests that Plato’s Academy did not receive direct state support. In other words, Plato too was a “sophist,” as Socrates liked to use the term.³⁰⁵

Of course, Plato’s Socrates, in the dialogue *The Republic*, paints a very different picture of how matters ought to be run. Education should be controlled by a group of elite guardians, based on the dictates of philosophy and enforced by centralized power. Subversive poets should be banned and the market should be subordinate to the collective good. For Smith, in contrast, the natural incentives of the market, and the demand for education, suffice to procure better human knowledge at a satisfactory level. The entire autocratic machinery of Socrates’s professed Republic is not necessary, nor is it necessary to elevate the philosophers so. Most of all, Smith’s discussion of education dethrones philosophy and its supposedly preferred place in the shaping of the soul. You can think of Smith as relativizing philosophy and showing it isn’t special at all, but it is rather another mode of reasoning that can be taught in a market setting. For Smith, commercial society is self-sufficient, at least if certain underlying conditions are met, and it does

³⁰⁴ See Smith (2003 [1776], pp.979-981), with “teaching for hire” on p.981.

³⁰⁵ On all this, see Smith (2003 [1776], p.982).

not require philosophy per se as an independent, regulating principle. Once you start reading *Wealth of Nations* through the lens of being a response to Plato, it is hard to get that thought out of one's mind. Smith is consistently downgrading the import of philosophy, and upgrading the import of well-functioning decentralized systems, based on practical knowledge and a certain measure of both sympathy and greed.³⁰⁶

Interestingly, Smith largely rejects travel as a means of education, and thus criticizes the prevailing British notion of the “grand tour” on the continent. He sees travel as wasted on the young, and that a continental trip may just lead to “frivolous dissipation.” You can think of this as another example of Smith's theory of moral and intellectual failure, namely that individuals perceive only “the local” (my term, not his) and do not always grasp the larger picture of what they ought to know or learn. You might travel to Italy, but most of all you are just there to have fun. The true way that individuals learn useful knowledge is through competitive and commercial constraints.³⁰⁷

Overall, Smith is at pains to show that a modern commercial society can handle the issue of education in a manner that is culturally self-sustaining. In this regard he is asking questions that are deeper and arguably more important than what most economists think about today in their professional capacities. As the education discussion proceeds, Smith lays out exactly how beneficial ideas are going to be produced, transmitted, and maintained.

Smith notes that in his society most education is religious education. He accepts this as a reality, but he also sees it is due to change. Over time, religion will become more competitive and less

³⁰⁶ See Smith (2003 [1776], p.984).

³⁰⁷ See Smith, (2003 [1776], p.978). Relevant more generally is Klein (2016) on Smith's non-foundationalism, see also Klein (2023a).

dependent on endowments. A semi-monopolized state religion might remain, but due to its sloth and torpor over time it will become less effective. De facto instruction of all kinds will be on an increasingly competitive basis. In Smith's portrait of this world, each religious sect will be quite small, will criticize the other sects, and will have a relatively modest reach and influence. Nonetheless, within each sect the approbational influence of other sect members will play a strong role in shaping behavior. In Smith's view, that will produce a certain amount of "philosophical good temper and moderation." If you are wondering, Smith envisions this setting as having two or three hundred different religious sects, perhaps as many as one thousand. That estimate is important for Smith because in his view when particular religions are so small there is little danger they will upset the broader political and economic order. With this estimate, Smith may have underestimated the economies of scale in marketing and maintaining religious loyalties.³⁰⁸

Smith recognizes that religions are by no means the only influences in these situations, and he refers to the two contrasting moralities of the "strict or austere," and the "liberal." It is important for Smith that the liberal moralities prove sustainable and beneficial as well, and he believes that is possible. In the liberal system of values, a great deal of excess and debauchery is tolerated, provided it is not accompanied with "gross indecency" (never defined). Smith is therefore willing to tolerate the "disorder and extravagance of several years," and recognizes this will be especially common amongst the well-to-do. At the same time, he believes that poorer individuals, who migrate to urban areas and may feel they have little to lose, are better off joining the smaller, stricter religious sects. In Smith's portrait of this moral equilibrium, the

³⁰⁸ For the quotation, see Smith, p.1002. The general discussion is from pp.995-1002. For Smith on religion more generally, see Kennedy (2013) and Fleischacker (2021, chapter eight).

wealthier have looser morals and the poorer individuals need to learn not to merely copy them but rather require some additional moral rigor.³⁰⁹

Smith also considers the possibility that the religious sects might be too strict, and he has two recommendations to counteract that possibility. The first is that governments should encourage the study of science and philosophy, to serve as moderating influences. The second is that governments should subsidize “public diversions,” by which Smith meant painting, poetry, music, and dancing. Those influences will in turn also keep people from taking their religious sects too seriously and too strictly when it comes to morality. You will note that here Smith is once again replying to Socrates in Plato’s Republic. For Socrates, such entertainments were to be banned or at least strongly regulated by the rulers, for fear of corrupting the youth and corrupting public morals. For Smith the danger is religion becoming too powerful, a plausible belief to hold in 18th century Britain, given the preceding wars of religion. What is needed is not so much control, but a gentle nudge in the direction of fun and a certain amount of moral relaxation.³¹⁰

On these points, we can see Smith intersecting with Malthus. I discussed Malthus’s famed “moral restraint” in the Malthus chapter. Like Smith, Malthus also feared the development of widespread depravity amongst the laboring classes, but for Malthus the emphasis is much more on sex and reproduction and also the fear of developing a society of prostitutes. Malthus was writing in the broader tradition of Smith, but with a more Christian and you might also say more Freudian emphasis, as for instance Malthus saw the need for sexual repression. In response to these problems, Malthus was wanting to rebalance Smith’s remedy more toward the doctrines of the stricter religions.

³⁰⁹ On the two moralities, see Smith (2003 [1776], p.1002), with “gross indecency” being from pp.1002-1003, and “disorder and extravagance” from p.1003.

³¹⁰ See Smith, (2003 [1776], p.1005).

Smith himself learned a kind of modified Calvinism as a boy, though he later evolved into a state of non-belief, the exact degree of which remains uncertain. He also disliked the Church of England, which he dealt with in his Oxford years. He had the most praise for Presbyterian modes of church governance, though he favored the separation of church and state. This was broadly consistent with his views that a church close to the people could have some positive results when it came to its role in education, just as he had advocated for the subsidization of parish education, as the Scots had done, as mentioned above.³¹¹

Smith's strengths as economist

I have been focusing on some non-traditional and broader aspects of Smith, but let us not forget he is probably the most *important* economist of all time, whether or not you think he is the greatest. So much of economic reasoning comes from him, and so often it is the highly significant economic ideas, not just the marginal ones.³¹²

Arguably *Wealth of Nations* is strongest on the topics of the market price system, mercantilism, and what we moderns might call exponential economic growth. To that list I might add division of labor and increasing returns to scale. Let's consider those in turn.

³¹¹ Kennedy (2013) has a good summary of Smith on religion and Smith's own religious history, with 473 on the Presbyterians.

³¹² For a very good overview of Smith's contributions and analytical abilities as an economist, see Hollander (1973).

Smith on mercantilism

Both in its own day and still now, *The Wealth of Nations* has been known as a broadside against mercantilism, the dominant economic philosophy in the British Isles and much of Europe before Smith. Mercantilism had multiple emphases, including state-building, the accumulation of specie, the quest for a favorable balance of trade, and the collection of data about increasingly modern economies. Smith did not reject mercantilism outright, but he did see that most of the doctrine was wrong and he identified its flaws with unerring accuracy and also depth.

When you read Smith on mercantilism, it is stunning how much he was the one person who, on his own, unpacked the entire analytics. As a reader, you can start with Book IV, Of Systems of Political Economy, which starts with mercantilism as a primary topic.

Smith commences by distinguishing between money and wealth, and the individual perspective vs. the collective perspective. A single individual with a lot of money is wealthy, but the same does not hold for the nation as a whole. This distinction between individual and collective perspectives is one of the most fundamental points of macroeconomics and Smith, in contrast to most of the mercantilists, nailed it. And as a practical result, Smith considers it a policy mistake for a country to try to maximize the quantity of specie within its borders.³¹³

But in this matter, as is typically the case, Smith is smarter and deeper than you might at first expect. Smith understood that many of the arguments of the mercantilists were “partly solid and

³¹³ See on all this Chapter one, “Of the Principle of the Commercial or Mercantile System,” (2003 [1776], pp.539-567).

partly sophisticated.”³¹⁴ Nonetheless he stresses that gold and silver have prices, like other commodities, and the market allocates those metals in accord with market demand. A country with natural wealth “will never be in want of those metals.” Smith also goes into detail about how smuggling often defeats legal attempts to keep precious metals within the country.

What then does Smith grant to mercantilism? First, he does clearly understand that, in a world of international conflict, a country may wish to hold precious metals. He is not persuaded to the mercantilist side by that fact, but his explanation is clearer than what you will find in the mercantilists themselves.³¹⁵

Smith also makes the major concession that a country can indeed have too little money, in spite of the market mechanisms he outlined earlier. But when such a scarcity of money comes about, the cause typically is “overtrading,” or as we moderns might say excess speculation and the bursting of a bubble. For Smith, when there is too much borrowing and too much overtrading, those markets can then collapse and credit will collapse with it. The problem is thus not lack of gold or silver, but that the collapse of credit means people cannot borrow and then there is insufficient money and liquidity.³¹⁶ Of course this will sound familiar to anyone who knows about the Great Depression or the financial crisis of 2008. The broader point is that Smith is aware of the possibility of a shortfall in demand, he just doesn’t think an insufficient supply of base metals is the core problem.

Smith then goes further and considers whether the precious metals are a significant part of the stock of national capital. Smith does recognize that the precious metals are part of national

³¹⁴ Smith, (2003 [1776]) ,p.544 on sophisticated, and p.546 on “never be in want”.

³¹⁵ Smith, (2003 [1776], p.541).

³¹⁶ Smith, (2003 [1776], p.549-550).

wealth, but he sees them as small relative to the broader stock of national capital. Furthermore, Smith sees the precious metals as a relatively unproductive way of accumulating wealth. I'll consider this point in more detail later, when we get to exponential economic growth, but Smith was obsessed with the notion that some economic activities yield compounding returns and others do not. For Smith, the precious metals did not offer much in the way of compounding returns, as they did not augment themselves per se, and thus they were not, at the national level, to be coveted.³¹⁷

Finally, Smith has an excellent account of what the gains of trade actually do consist of, if not the accumulation of precious metals. For Smith, trade is a way a nation can take its "superfluities" and exchange them for something more valuable, or which another nation finds to be its surplus production. Smith doesn't quite "nail" the theory of comparative advantage, as was later developed by Ricardo and Torrens, but he comes close to it and his understanding of trade, while underdeveloped, was pointing in the correct direction. Trade is good because it expands the consumption opportunities of a nation, not because of its effects on the stock of precious metals.³¹⁸

In this entire discussion, we can see how multi-faceted Smith's intellectual approach was. He stated mercantilist doctrine clearly, he recognized the grains of truth in it, and he considered issues of enforceability, logical coherence, whether the mercantilists had a proper understanding of individual vs. social perspectives, whether the mercantilists had a proper understanding of trade, and also the empirics of mercantile policy. After looking at mercantilism from these diverse vantage points, Smith mostly rejected it, and for what were largely the correct reasons.

³¹⁷ Smith, (2003 [1776], pp.550-551).

³¹⁸ Smith, (2003 [1776], p.561).

Smith also understands, indeed throughout the entire *Wealth of Nations*, that special interest groups play a major role in shaping government policy. To the extent a polity embraces mercantilism, what the country receives is not some well thought out version of mercantilism, but rather a system of commercial protection that may end up dominated by interest groups, and run for the benefit of such groups rather than for the citizenry.

Smith explains how subsidizing some part of domestic industry, as the mercantilists were wont to do, draws resources out of other, more beneficial occupations. He then uses that discussion to segue into his famous discussion of the invisible hand:

“As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. . . . he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.”³¹⁹

If you are impressed by Hayek’s work and are considering naming him as GOAT, keep in mind Smith was there first. Shortly thereafter, in Smith’s famous “Digression Concerning the Corn Trade and Corn Laws,” he expanded these themes in more details. Keeping in mind that “corn” in this context means “grain,” Smith fleshes out how the price system leads merchants to take the interests of consumers into account, extending the invisible hand metaphor, though without using the phrase again. For instance, freedom of the trade, above all freedom for its prices is the best

³¹⁹ Smith, (2003 [1776]), Book IV, chapter II, for instance p.569 and for the section on the invisible hand see p.572.

remedy against famine, as higher prices will call for higher supply. Speculators serve this same end, by spotting opportunities to buy up supplies and direct them toward more valuable market opportunities; Smith compares opposition to speculators to opposition to “witchcraft.” Smith also considers the case where monopolies might distort the price system, by destroying output to enjoy a higher price, but he understands why, in the presence of competition that outcome is difficult to achieve.³²⁰

Overall, if you asked what was the single biggest advance economists have made in understanding the market price system, these sections of *Wealth of Nations* would be hands-down winners, with Hayek’s classic essays coming in at number two.

Stemming out of these general principles is Smith’s treatment of when encouragement of domestic industry might make sense or even be strongly recommended, and that brings us to national defense. Smith argued that if a particular sector were essential to the defense of a country, such as shipping was for Britain, governmental encouragement of that sector, and protection against foreign competition, was desirable. More concretely, during Smith’s time this meant he favored the Navigation Acts, a classic outgrowth of mercantilist [sic] thinking. One part of the Navigation Acts was to limit the ability of foreign shipping to compete with British shipping, thereby boosting and maintaining British shipping dominance. Of course that had military implications as well over the longer run. Smith wrote: “As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England.”³²¹

³²⁰ Smith, (2003 [1776]), pp.660-687, with the witchcraft segment on p.674.

³²¹ Smith, (2003 [1776], pp.580-583), with the quotation on p.583.

Smith then returns to a few additional exceptions to the principles of free trade. First, anticipating what modern economists call “theory of the second best,” Smith argued that if there is a tax on the domestic production of an item, a tax on foreign supply might restore parity rather than causing a distortion. Second, sometimes retaliatory tariff threats can induce a broader liberalization, and finally sometimes tariffs should be removed slowly rather than immediately, so that affected workers do not suffer too dramatically and so they have time to adjust. In each instance Smith’s argument, and its qualifications, is remarkably modern and also analytically on the mark.³²²

Perhaps the most famous discussion in *Wealth of Nations* is Smith’s opening treatment of the pin factory and division of labor. The very first sentence of the book proper runs as follows: “THE GREATEST improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour.” He then explains in detail how the pin factory becomes more productive through greater division of labor.³²³

You might think that Smith is overrating the impact of the division of labor and underrating the impact of sheer capital accumulation and the accompanying mechanization of production. But Smith already has taken that point into account. His account of the division of labor cites three benefits, namely “the increase of dexterity in every particular workman,” the saving of time in passing from one occupation of one’s labor to another, and “the invention of a great number of machines which facilitate and abridge labor,” the latter factor bringing mechanization into the picture directly.³²⁴

³²² See Smith (2003 [1776], pp.583-589).

³²³ Smith, (2003 [1776], Book I, Chapter 1, p.9).

³²⁴ Smith, (2003 [1776], p.14).

It is nonetheless an important point for Smith that “decentralization” (e.g., division of labor) is conceptually prior to mechanization, and not vice versa. He emphasizes that all those amazing machines are invented when men turn their minds to very particular, individual problems in a focused manner, and furthermore have an incentive to make an actual improvement. Smith gives the example of a boy “constantly employed to open and shut alternately the communication between the boiler and the cylinder...” In order to save some of his own labor time, the boy came up with a superior method of tying a string so that the proper opening and shutting would occur automatically. That is just one example but it reflects a broader and very fundamental approach. For Smith, to carry along a theme I will continue with throughout this chapter, it is ideas and perceptions that are ultimately scarce and also important, and it is decentralization that is a fundamental change in modernity compared to earlier times.³²⁵

In his second chapter of Book I of Wealth of Nations, Smith continues with his account of the origin of the division of labor. He sees it in mankind’s selfishness, combined with a natural propensity to trade. It is here that Smith presents his classic maxim: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest.” What is noteworthy about this famed passage, at this point, is that it is a central part of the discussion of division of labor. Once again, Smith saw capitalism as a series of decentralized economic incentives, and he attached great import to that reality.³²⁶

Finally, Smith recognized that a stress of the division of labor implied what we moderns call “increasing returns,” or more broadly the notion that transformative changes feed upon each

³²⁵ For Smith’s account of how division of labor is prior to greater invention, see Smith (2003 [1776], pp.16-17), p.17 for the quotation.

³²⁶ For the quotation, see Smith, (2003 [1776], pp.23-24).

other, do not stop, and can accelerate. Book I, Chapter III has the famous title (and topic) “That the division of labour is limited by the extent of the market.” To put it simply, division of labor makes the market larger, and a larger market in turn supports more division of labor. That process has no obvious end, as indeed economic history running up through the current day has illustrated. Smith was writing too early to see the full power of the Industrial Revolution and also fossil fuels, but he realized full well that if he were going to defend the commercial society of his time he had to be prepared for it to evolve into something very, very different from the earlier worlds of antiquity and also the Christian Middle Ages. Thus Smith understood that Wealth of Nations was tackling an *enormous* analytical task, and he gave that task his full and undivided attention for many years. And he eventually succeeded to a remarkable degree.

Do we need to cancel Adam Smith?

A further piece of good news is that Smith is about the least cancelable economist, on a par with Milton Friedman. Yet Smith achieved this status in the eighteenth century, when pressures to fit into modern notions of political correctness did not exist. If anything, the contrary incentives might have existed, yet on moral questions Smith got just about everything right.

For instance, on slavery Smith actively opposed the institution and furthermore he had an influential legacy on the economics of slavery. First, he argued that free labor was more productive and more efficient than slave labor, due to better incentives. Second, he unambiguously identified the falling away of slavery with the onset of progress and the arrival of a better world. Third, Smith attempted to construct principles of justice under which involuntary

slavery always was bad. If you wanted to cite an Enlightenment thinker on why slavery was bad, Smith was tailor-made for that purpose.³²⁷

Smith also put forward the interesting hypothesis that slaves would be treated worse in freer societies. When government is purely autocratic and arbitrary, the autocrat is at least possibly a check on the tyrannical exercise of slave owner power. When government is representative, however, the slave-owners themselves end up, to some degree, in the representative assembly, and such checks on their power are weakened. A supposedly freer society thus is not freer in all regards. Analysis of this kind is another sign of Smith's sophistication as a thinker.³²⁸

When it comes to the treatment of indigenous peoples, Smith had a largely accurate and unsentimental understanding of what was going on. For instance, when it comes to the Spanish treatment of Native Americans, as surrounded the quest for gold, he referred to "the plundering of the defenceless natives."³²⁹ The most likely explanation here is that Smith was a relatively objective observer and also a benevolent man.

Smith also doubted whether colonialism was so wonderful for the British economy itself. He saw the British economy as becoming overly dependent on colonial ties and as ultimately less secure for that reason. This later rang true when the British system of imperial preference collapsed

³²⁷ For a survey of Smith on slavery, with a focus on the justice issue, see Salter (1996). See also Drescher (2004, pp.31-32). Smith offers further remarks on slavery in his *Lectures on Jurisprudence* (1982), dating from the 1750s. If there is any "embarrassment" in Smith, it is that he periodically recognizes that some West Indian slave plantations did in fact do pretty well commercially, see also Drescher on this point. More generally, on anti-slavery and egalitarian traditions in the history of economic thought, see the pathbreaking works of Levy (2002) and Levy and Peart (2005).

³²⁸ Smith, (2003 [1776], pp.744-745), and see also Salter (1996, pp.241-242) for Smith on the origins of slavery.

³²⁹ Smith, (2003 [1776], p.711).

during the second part of the twentieth century, coinciding with the economic decline of the nation. Albeit with a significant lag, Smith saw this coming in advance, and he favored a gradual move toward a regime where the British colonies can trade freely with all nations. He also called for a complete dissolution of the colonies altogether, though in the case of America he preferred a political union, on terms of equality, with Great Britain.³³⁰

Smith well understood the initial commercial incentives for building the British empire. He suggested that the British built their empire in part because it was a “nation of shopkeepers,” and that those shopkeepers wanted to use the “blood and treasure of their fellow-citizens” to keep the empire intact.³³¹

Throughout this entire discussion, keep in mind the context for Smith himself. Scotland and England joined in the Union of 1707, and while Scotland was not a colony in this relationship, it was very much the junior partner. Smith knew what it was like to be in a political union where the English were the dominant party in the relationship. The Union went very well for Scotland, and Smith himself favored the relationship, but still he understood what it felt like to be in the subordinate political position.

Smith’s understanding of the American colonies is especially interesting. He understood that the American colonists had liberties roughly equivalent to those of British subjects at home, foreign trade being one exception. Overall he saw their manners and governments as more republican, and as characterized by more equality, than in Britain itself.³³²

³³⁰ Smith, (2003 [1776], pp.768-769). On colonial dissolution, see pp.782-783, and on union see p.792.

³³¹ Smith, (2003 [1776], p.780).

³³² See Smith, (2003 [1776], pp.742-743).

Smith also saw an upside to the brutality of colonialization, though he did not intend this analysis as an apology. Nonetheless it showed Smith's ability to think through many sides of an issue. After discussing the illiberal and oppressive nature of colonialization, Smith wrote: "It bred and formed the men who were capable of achieving such great actions, and of laying the foundation of so great an empire; and there is no other quarter of the world of which the policy is capable of forming, or has ever actually and in fact formed such men. The colonies owe to the policy of Europe the education and great views of their active and enterprising founders; and some of the greatest and most important of them, so far as concerns their internal government, owe it to scarce anything else."³³³

Adam Smith on India

Adam Smith's writings about India focused on the East India Company rather than India per se, but of course the company was the central governing force in the region when Smith was writing. As you might expect from an opponent of mercantilism, Smith was skeptical of the East India Company and its privileges. The company originally was chartered in 1600 by Queen Elizabeth, and over time the British gave the company monopoly rights to trade in the East Indies and eventually powers of governance. Typically the company did not run the affairs of India directly, but rather operated through local Indian rulers, who in turn faced a mix of bribes and coercion.³³⁴

Smith found this entire arrangement objectionable, and his arguments were pretty simple. He claimed, with considerable justification, that the shareholders of the Company cared about the

³³³ Smith, (2003 [1776], p.749).

³³⁴ Smith's account of the Company, in *Wealth of Nations*, runs from pp.947-962.

profits of the Company but not about the prosperity or happiness of India. Furthermore, he thought this clash of incentives was intrinsic to the arrangements and monopoly power of the Company, rather than an accident of bad management.³³⁵

Smith also recognized that the East India Company, through its rights to build and hold forts and garrisons, in essence was given the powers of peace and war and served as an imperial sovereign, a question that was much contested at the time. He does not mince words with his criticism here: “How unjustly, how capriciously, how cruelly they have commonly exercised it, is too well known from recent experience.”³³⁶

Smith, as was so often the case, did indicate the possible merit in the ideas of his opponents and he held a view that was moderate, perhaps too moderate, rather than intemperate. Smith for instance admitted that the East India Company’s landed possessions in India were legitimate, and stemmed from the right of the British Crown. He admitted it might make sense to give a joint stock company a temporary monopoly in the exploration of one part of the world, to encourage their efforts in developing trade there. Yet such monopoly rights should expire in a limited number of years. If the monopoly does not expire, that leads to bad governance but also to losses for the home country. Consumers have to pay higher, monopolized prices for the traded goods, and other potential suppliers are locked out of potential trading relationships.³³⁷

³³⁵ See Smith (2003 [1776], pp.954-955).

³³⁶ Smith, (2003 [1776], pp.956-957). On how Smith understood the East India Company as sovereign, see Muthu (2008), especially pp.199-201. For Smith on peace and war more generally, see Paganelli and Schumacher (2019).

³³⁷ Smith, (2003 [1776], pp.956-957). And on Smith’s anti-monopoly but moderate views on the East India Company, see Collins (2019). Donoghue (2020) is one general summary of Smith on the East India Company.

On India, Adam Smith has to be given high marks, both on his economics and on his political analysis. He lived in an age of empire-building and imperialism, and he saw exactly what was wrong with both of those. He was no expert on the internal affairs of India, and of course never visited the country, but he nailed the main Indian issue he came into contact with.

As a final note, it is sometimes neglected just how skeptical Smith was about joint stock companies more generally, not just in the context of India. For instance, he wrote the following passage, which if anything sounds like it might have come from a radical Silicon Valley advocate of start-ups and small, privately-held firms:

“The only trades which it seems possible for a joint stock company to carry on successfully, without an exclusive privilege, are those, of which all the operations are capable of being reduced to what is called a routine, or to such a uniformity of method as admits of little or no variation. Of this kind is, first, the banking trade; secondly, the trade of insurance from fire, and from sea risk and capture in time of war; thirdly, the trade of making and maintaining a navigable cut or canal; and, fourthly, the similar trade of bringing water for the supply of a great city.”³³⁸

Always worried about agency problems and incentives, Smith saw them in large, capitalist firms as well. Again, this point like many others shows just how skilled Smith was at analyzing issues from different angles and perspectives.

³³⁸ Smith, (2003 [1776], pp.958-959). For a general look at Smith on joint stock companies, see Anderson and Tollison (1982).

Theory of Moral Sentiments

I consider The Theory of Moral Sentiments, Smith's first book published in 1759, to be a problematic work in the sense of being conceptually unfinished. It has brilliant insight, but none of Smith's advocates have convinced me that it all adds up to a coherent thesis of import.

The advocates I encounter fall into two main camps. First, many scholars tell me if I read the book seven, eight, times or more, all the pieces will fall into place. It will be a "deep meditation" on...fill in the blank. A commentary on the Stoics? A new theory of fortune and chance? A true microfoundations for ethics, even though Smith never surmounts or very much confronts David Hume's is/ought dilemma? I don't know.³³⁹

I have very much hoped for these claims to be true. I want for the book to have a deeper coherent meaning. And I have read the book many times, I am not sure how many, but at this point I don't think another reading is going to do it. And I do like the book, and I enjoy it each time I read it. And I *love* Smith.

But I just don't see what the pieces add up to. They strike me as a very interesting running commentary on the role of affective sympathy in human affairs. And I am fine with that. But I don't see how it comes close to being a better or deeper work than Wealth of Nations. When Smith wrote Theory of Moral Sentiments he was already a brilliant thinker, but just didn't quite have enough experience to put all the pieces together into a "big book" consistent portrait of humanity. The book, to me, reads as if we are watching Smith still trying to figure out the pieces for himself.

³³⁹ For two good general overviews of how TMS fits into Smith's thought, see Fleischacker (2004, 2021).

The second set of advocates for the book I usually find in media outlets, sophisticated media outlets at that, or I hear it over lunch table conversation. These claims suggest that Wealth of Nations covers the commercial, selfish side of human behavior, while Theory of Moral Sentiments is an account of the caring, empathetic side, or something like that. I wish I had a nickel for every time I read or heard that contrast. Maybe it is harmless enough, but – and I don't completely understand why -- it kind of makes me sick. It is simultaneously an attempt to claim a bland centrist middle ground, to snidely distance oneself from capitalism and selfishness, and reduce Smith to a series of empty clichés. It is trying to be pat rather than insightful. It is trying to give everything its place in a manner that we can then safely ignore.

Just for a start, I view Smith's portrait of human nature in Wealth of Nations as rich and multi-faceted, a piece of behavioral economics, in modern terminology, rather than narrow, commercial, and purely selfish. And in Theory of Moral Sentiments yes people are empathetic, and show sympathy for others, but they are often caring in...pretty narrow and selfish ways. I just don't think the "each book carves out its own sphere" understanding of the pair works very well.

My biggest takeaway from TMS is that *human beings make evaluations*, including sympathetic evaluations but not only, *based on local rather than global information*. They put a lot of weight on what is right before their eyes and neglect the bigger picture. The very opening passage of TMS expresses how we can understand the emotions of others only through our own. We cannot look around corners to understand other minds directly, so we make inferences from our own experience. Smith demonstrates and then demonstrates that point again throughout the book. Here is one very clear statement of the point:

“Every faculty in one man is the measure by which he judges of the like faculty in another. I judge of your sight by my sight, of your ear by my ear, of your reason by my reason, of your resentment by my resentment, of your love by my love. I neither have, nor can have, any other way of judging about them.”³⁴⁰

Smith is clear, however, that such local information gives us a highly imperfect sense of what is truly going on. From our own perceptions we have only a scant idea of the experiences of others, and for instance if we witness pain or distress, our discomfort from those observations pales in light of the emotions experienced by the sufferer.³⁴¹

I think that understanding of TMS is fully consistent with my reading of Wealth of Nations. In Wealth of Nations individuals receive and process decentralized price information, which gives them a useful but highly imperfect sense of how to react to the economy as a whole (the “invisible hand”). In TMS individuals receive and process decentralized information about the emotions and sentiments of others. That gives them a useful but highly imperfect sense of how to react to the emotional world as a whole. In my reading the two mechanisms being proposed are broadly consistent and investigate the same kinds of questions about how the world works. Even a perfunctory reading of the two works shows that Smith did not consider the two kinds of invisible hand mechanisms to be the same. Still, in my reading, Smith was obsessed with how decentralized messages get translated into aggregate social and economic outcomes. And both books very admirably (to say the least) fulfill that vision. There is no “das Adam Smith Problem,” to refer to the earlier Germanic view that somehow Smith’s two books contradicted

³⁴⁰ Smith, (2009 [1759]), pp.24-25, Section I, Chapter III.

³⁴¹ See for instance Smith (2009 [1759]), p.28, Section I, chapter IV.

each other. Each book does refer primarily to a *different sphere* of life, but the two books are not posing conflicting motives or mechanisms, quite the contrary.³⁴²

Theory of Moral Sentiments is quite clear on both the benefits and costs of using local approbational information to guide one's behavior. On the plus side, individuals want others to think well of them, and that to some extent encourages virtuous behavior. One way to be praised is simply to be praiseworthy. Though that relationship is a complicated one, the desire for approval often brings out the best in us.

The downsides of local approbational information, however, are significant. The most obvious problem is one of selfishness. A small pain or sorrow suffered by ourselves is to us of much greater import than a large problem encountered by others. This is not just a question of our own moral imperfections, rather it is very difficult for us to perceive otherwise. Smith even draws a parallel between problems of moral perception and of visual perception, for instance how we can misestimate the size of a forest when we are viewing it through the lens of a very small window.³⁴³

Another bias for Smith is that we overrate the importance of the rich and the powerful, and underrate the importance of the poor; he refers to this as “the great and most universal cause of the corruption of our moral sentiments.” For Smith, we desire to be respected, we see that the wealthy and powerful are respected, and so those individuals end up with an excess influence over the approbational powers of society. We too often end up as flatterers of the rich and the powerful, and furthermore those individuals achieve too much influence over the course of social

³⁴² On the general theme of decentralization in Smith, see Paganelli (2006) and also Paganelli (2010)..

³⁴³ Smith, (2009 [1759]), p.157, Part III, Chapter III.

morals and also cultural fashions. Ordinary individuals, especially if they come into contact with the wealthy, too readily abandon the path of virtue in order to court approval.³⁴⁴

Individuals also tend to “over-rating the difference between one permanent situation and another.” A gain in money, for instance, appears to be a very large gain in happiness, because an individual perceives the change in status but does not form a fully developed conception of a life with significantly more wealth. In more modern language, we might say that the person overrates the importance of the first derivative, again because the full picture is difficult to grasp. These motives can encourage economic activity, but also can lead individuals “to disturb the peace of society...”³⁴⁵

Overall, Smith takes pains to distinguish his approach from that of the Stoics, one of the major philosophic influences on his work, although he is mostly reacting against them. The Stoics had argued for a kind of detached moral universalism, in which we treat everyone’s pleasures and suffering the same. Smith understands that moral impetus, but he portrays the Stoic view as an unrealistic set of moral maxims that actual human beings never will be able to follow. He sees the world as necessarily ruled by decentralized mechanisms rather than moral proclamations, and thus for Smith a true cosmopolitanism is impossible for humans and possible only for God. I am fond of this passage in Theory of Moral Sentiments: “The poets and romance writers, who best paint the refinements and delicacies of love and friendship, and of all other private and domestic affections, Racine and Voltaire; Richardson, Maurivau, and Riccoboni; are, in such cases, much better instructors than Zeno, Chrysippus, or Epictetus.”³⁴⁶

³⁴⁴ Smith, (2009 [1759]), pp.73-78, with the quotation from p.73.

³⁴⁵ See Smith, (2009 [1759]), p.172, Part III, chapter III.

³⁴⁶ Smith, (2009 [1759]), p.164, Part III, chapter III, see also pp.162-163. As Stoicism as a philosophy for God alone, see Smith, Part VI, Section II, Chapter III, p.279. On Smith as a critic of Stoicism more generally, see Bee and Paganelli (2019).

Chips from the workbench

On this dimension I find Smith relatively weak. He has two major works of great import, and one of those, Wealth of Nations, is one of the very best books of all time. But after that...not so much. If Smith's lesser works were to fall away, neither the world nor the intellectual world would be so greatly worse off.

If you paw through Smith's collected works, as published by Liberty Fund, you can see what is in the running.

The Lectures on Rhetoric and Belles Lettres are what the title indicates, lectures, based on lecture notes from a student of Smith's and reflecting Smith's duties as a professor of literature at the University of Glasgow. Whatever their failings may be, you can't hold them against Smith. This isn't a work he ever meant or expected to publish, rather they date from his lectures in the 1740s, before even Theory of Moral Sentiments. And if you read through them, they are OK, or as a first effort could be seen as quite good. They present arguments of modest interest in an eighteenth century, Scottish Enlightenment manner. I do feel I am hearing the words of Smith, perhaps with some filter, but the material never feels non-Smithian. I am glad the notes exist, but if they were not attached to the name of Smith they would attract only modest scholarly attention. You can read about the origins of language, the nature of poetry, or the nature of deliberative eloquence in these pages. It all comes across as underdeveloped analytically, though again I think the mode of presentation is appropriate for lectures. This book does show that Smith in his unguarded moments, and in his early moments, still was interesting, and it confirms the breadth of his interests. Still, all that is conditional praise and I don't think the manuscript

adds much to Smith's intellectual reputation. It certainly doesn't *damage* his reputation, but in terms of GOAT status it is not a big plus for him.³⁴⁷

You might next turn to the Essays on Philosophical Subjects, published in 1795 after Smith's death. These are fragments rather than lectures, and as a result they read as...fragmented. They cover the history of astronomy, the history of ancient physics and metaphysics, the external senses, and what Smith called "the imitative arts" (music, dancing, and poetry). Overall the material is more interesting than the Lectures, and it is distinctly Smithian in its interest in cultural evolution, and the theme of the difference between the near and the far, the local and the global. There is nothing in here that harms Smith's reputation, but neither does this volume fundamentally upgrade it. The works are an appendage to the (very high) reputation of Smith, rather than boosting such a reputation.³⁴⁸

To understand this volume, a bit of background is necessary. For years Smith had been working on a much longer work, or series of works, on a history of the liberal sciences and arts. But he grew frustrated at the impossibility of completing that project and he abandoned it. He also gave instructions to his friends (chemist Joseph Black and geologist James Hutton, both eminent) that the relevant works in progress be burnt before his death, and there is no remaining physical trace of them. These essays, unpublished in Smith's lifetime, are perhaps some reflection of the broader work Smith had in mind. The bottom line, however, is that Smith had most of his

³⁴⁷ On the background of the lectures, see Skinner (1985) and for more on the topic see Phillips (2006). For a look at Smith on language, see Dascal (2006).

³⁴⁸ For Smith on aesthetics, see for instance Labio (2013). On Adam Smith as critic, see Chandler (2013).

“chips” or “nuggets” destroyed. And Smith himself, apparently, did not think they were good enough. So Smith is not going to score high in the “chips off the workbench” category.³⁴⁹

My personal view is that the destroyed works, while immensely valuable for historians of intellectual thought, would not in fact have been so brilliant. My subjective reading of Smith was that he was a great mind of the very highest order, but he poured all of his mental efforts into one grand effort to “figure everything out,” and that process manifested itself as *The Wealth of Nations*. He needed that intensity of effort to reach his highest peaks of achievement, and after using his mind to serve as “vessel” in that manner, he found it difficult to reach similar levels of vision and insight. My view of Smith here reminds me of Proust, or of Cervantes. Had those authors lived longer to write more novels, I don’t think they would have produced masterpieces comparable to In Search of Lost Time or Don Quixote. Like Smith, Proust and Cervantes were writers and thinkers of the highest order, but somehow their efforts all culminated in their highly individual masterworks and after that point the flow was never the same. There is no disgrace in having this kind of mind – hardly – but it contrasts with the ongoing fecundity of Mill, Keynes, or Friedman, among others.

It does seem that Smith led a somewhat frustrated life, he found writing and penmanship to be a laborious endeavor, he was content to live many of his years with his mother, and he had periodic health problems. Written output did not flow easily for Smith, compared for instance to his friend David Hume, or for that matter Voltaire, whose complete works recently have been issued in 205 volumes. But perhaps having a constipated pen worked to Smith’s advantage. When he did pour forth with something of import, it reflected many years of careful and profound thinking.³⁵⁰

³⁴⁹ On the story of this work, see Raphael and Skinner (1982, “Introduction,” especially pp.1-2). On the friends, see Philippon (2010, p.3).

³⁵⁰ See Ross (1995, passim), and p.245 on Smith’s penmanship.

For Smith there are also the Lectures on Jurisprudence, dating from the 1750s. This work is by far the longest and most substantive of Smith's "nuggets," though I hesitate to call it systematic. It also was not a work produced under Smith's supervision or approved by Smith, but again it was based on lecture notes published after the fact. Most of all, it shows how much Smith was concerned with matters of law and with stages of historical development, most of all the progress of the arts and manufactures. Overall the lectures illustrate how much his political economy was held in thrall to that broader enterprise of social science. The Lectures also offer particular discussions of interest, including further detail on his views on slavery, the early discussion of militia mentioned above, Smith's nascent views on supply and demand in economic markets, and an earlier version of Smith on monetary economics and mercantilism, broadly consistent with The Wealth of Nations, but not yet equally well developed.³⁵¹

It can be said that the Lectures on Jurisprudence are to Smith's credit and he cannot be held responsible for any defects in them. They are not a game-changer for Smith in this category, but definitely count in his favor. The broader point remains that Smith produced only major works.

Finally, there is Smith's correspondence. Here I am positive but wishing for more. If you read through the Liberty Fund volume Correspondence of Adam Smith there are far more letters to Smith than from him. You can blame Smith's correspondents and their archive-keeping processes for that lapse, but still it means Smith's letters can only elevate him so much. The highlights of these letters include a defense of Scots union to William Strahan, Smith to David Hume on how both he and Rousseau are rascals, Smith to William Cullen analyzing Scottish universities at

³⁵¹ See Smith (1982). For good background on Lectures on Jurisprudence, see Lieberman (2006). On slavery, see Smith (1982, 182-199). On supply and demand, see Smith (1982, pp.356-361). On monetary economics, see Smith (1982, 368-394).

length, and Smith to William Strahan with a moving narrative on the illness and death of Hume. Bravo to Smith, but again there is just not enough here to really move the needle.³⁵²

What else did Adam Smith do?

His major works aside, Adam Smith's life was not that interesting. When Smith was a young boy in Kirkcaldy it seems he was temporarily kidnapped by gypsies, though in short order returned to his parents. The full story is not known, but is probably more exciting than much of what was to follow. After all, Smith's mother lived with him until her death in 1784 at age 90.³⁵³

Smith attended Glasgow University, starting at age 14 and then attended Oxford. From the years 1751-1764 he taught at the University of Glasgow, and after resigning he served as a traveling tutor for a nobleman's son, which enabled Smith to spend time in France and meet many of the major French intellectuals of the time. Wealth of Nations of course is published in 1776, and in the years leading up to that book Smith spent most of his time in Kirkcaldy, though moving to London in 1773 for social and intellectual stimulation.³⁵⁴

The latter part of his life Smith worked at the customs house as a bureaucrat, and he kept this job until his death. Unfortunately, his productivity in terms of finished work fell off the table. Smith started his duties in Edinburgh in 1778, not long after the publication of Wealth of Nations and at fifty-five years of age, arguably his analytical peak. He received an income of £900 a year,

³⁵² See Smith (1987), *Correspondence of Adam Smith*, from various dates.

³⁵³ For further detail, see Scott (1965, pp.22-25) and Ross (1995, p.18).

³⁵⁴ On the tutoring, see Haakonssen (2006, p.2). On the course of Smith's life in general, see Philippon (2010) and Ross (1995). Rae (19770 [1895]) is the classic biography, though now out of date on many particulars.

two-thirds of that from the government appointment and the other third being a pension from the House of Buccleugh. Those funds made Smith rich by the standards of his time, and a letter from Edward Gibbon to Smith at the time confirms what a plumb job this was thought to be. Smith himself sought the job actively. The customs commissioners were in essence an import police who, acting as a council, oversaw the enforcement of the customs laws and customs duties. Smith's work thus enforced the strictures of English mercantilism and served as a tax collection agency.³⁵⁵

Smith did do substantive bureaucratic work at the customs house, as for instance he signed hundreds of pages of letters to customs collectors in Scottish outports. He also worked on breaking up illegal stills, seizing vessels suspected of being used by smugglers, searching the property of suspected smugglers, and allocating troops to tracking down smugglers. He wasn't just sitting around at his desk.³⁵⁶

To the extent you love Smith as a free trader, this customs house stint has to count against him. To the extent you love Smith as a nation-builder and pragmatic thinker, it might count for him. But in terms of influence and importance through real world activity, it pales in comparison to Mill, Keynes, or Friedman. It just doesn't count as such a big plus for Adam Smith and arguably it could count as a negative.

Smith's greatest "off the books" achievement was his longstanding friendship with fellow Scot David Hume. Hume was one of the greatest philosophers of all time, a central figure in the Scottish Enlightenment, and furthermore one of the best and most important economists of the

³⁵⁵ On these details, see Vanderblue (1937) and also Anderson, Shughart, and Tollison (1985). For the Gibbon letter, see the Liberty Fund edition of the correspondence (1987, pp.228-229).

³⁵⁶ See Anderson, Shughart, and Tollison (1985).

eighteenth century. Smith, although twelve years his junior, provided what was probably invaluable intellectual support, and one wonders whether emotional support might have been part of the package.³⁵⁷

The two men first met in what was probably 1749 in Edinburgh, when Smith was in his early twenties and had not yet published his major works. The two remained close friends for the rest of the lifetime of Hume, who died first in 1776. They exchanged ideas and, one would hope, inspirations throughout the friendship, although both were quite private men and we do not have a clear glimpse into the details of their interactions. Nonetheless Hume could not have found many intellectual equals during his lifetime and Smith was remarkably well-suited to fill that role. While the doctrinal similarities between Hume and Smith are sometimes overstated, Smith at least was close enough as a thinker to understand what Hume was up to and to appreciate it and probably also to give Hume good critical feedback.

That said, Hume had written his major philosophical works before he even met Smith; his famed Treatise on Human Nature for instance was published by Hume in his twenties (!) in 1734. Still, his History of England, many of the essays, and his posthumous Dialogues Concerning Natural Religion all followed his friendship with Smith. The extent of Smith's intellectual influence on those works is not obvious, but again simple companionship and intellectual support can themselves be a major positive factor on the efforts of another, even if Hume was not borrowing ideas from Smith. Hume and Smith, quite simply, created one of the greatest intellectual friendships in all of Western history.

³⁵⁷ On the Smith-Hume friendship, see Rasmussen (2017), and p.45 on the evidence of their first encounter.

It is worth noting that Smith also belonged to The Club in his London years leading up to the publication of *Wealth of Nations*. Other Club participants included Samuel Johnson, James Boswell, Edward Gibbon, and Edmund Burke, perhaps the ultimate instantiation of the “small group theory” of social change. These members did not always like each other, or have harmonious relations, but nonetheless this has to count as an interesting and perhaps influential episode in Smith’s life.³⁵⁸

Summary remarks

Adam Smith remains a contender for GOAT.

³⁵⁸ See Ross (pp.250-251) and also Leo Damrosch (2020).

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CHAPTER 9

The winner(s): So who is the greatest economist of all time?

After writing most of this book, I concluded there was a “top three” tier of candidates, though not an obvious number one.

We started with a contender’s list of the following names:

Milton Friedman

John Maynard Keynes

Friedrich A. Hayek

(Those who did not make the short list: Marshall, Samuelson, Arrow, Becker, and Schumpeter)

John Stuart Mill

Thomas Robert Malthus

Adam Smith

I've already explained my stances on those who did not make the short list, so I'll focus on the other names here, and to do so I will repeat two paragraphs from the opening chapter of the book, namely:

To qualify as "GOAT the greatest economist of all time," I expect the following from a candidate. The economist must be original, of great historical import, serve as a creator and carrier of important ideas, have a hand in both theory and empirics, have a hand in both macro and micro, and be "not too wrong" on the substance of issues. Furthermore, the person also must be a pretty good economist! That is, if you sat down with the person and discussed economic issues, you would be in some way impressed.

It could be debated how much weight should be assigned to each category, but that is better considered through concrete comparisons than in the abstract. My inclination is to take each category as a kind of absolute requirement. That is, if a particular candidate fails in that area, he is not going to be GOAT. You might wonder "but what about his strength in all the other areas?" Well, the areas of achievement listed above are so fundamental that if a person falls short in one of them in a major and obvious way, he is likely to be falling short in other areas of economic importance as well, even if those other failings are less obvious. Rest assured, that individuals still can be in the top ten economists of all time, if you so desire, so I am hardly pressing the eject button on them.

With that in mind, I am ready to rule a few names out.

First, I am inclined not to pursue one name on the list whose views (in many but not all areas) are close to my own, namely Friedrich A. Hayek.

Hayek's case looks weak once you take away his top five articles. Furthermore, he had no real involvement with empirical work of note. He definitely belongs on the short, short list, due to his depth and the import of his best ideas, but he is not quite GOAT material. We can give him a "GOAT article" award for "The Use of Knowledge in Society" and send him on his way.

As Hayek falls, so must John Maynard Keynes. I am happy to grant Keynes the award for "most influential policy economist," and "the economist involved in the greatest number of hinge historical moments," and maybe also "the candidate I would most want to hang out with." Not to mention "candidate with the best art collection." But his microeconomics were not top notch, and he was not strong in empirical work. Macro was his strong suit, but his major contribution was an important theory but not quite a general theory, as he tried to claim. Since most of economics is microeconomics, he doesn't clear the bar for being number one. Keynes's economic views are not exactly my own, but if you wish you also could offer him – for your own purposes -- the laurel of "GOAT candidate I respect the most." Just don't confuse that with winning the GOAT award outright.

Next, I cannot in good conscience further advance the name of Thomas Robert Malthus as GOAT. However underrated he may be, he just wasn't correct enough on a great enough number of issues. And if you sat down with him to analyze a host of issues in both micro and macro, I believe he would make too many errors. He just didn't have enough analytical tools at his disposal. That is no fault of his own, but it prevents him from winning. Let's instead give him the "raised the salience of some truly important issues that still are under-discussed" award, most of all when it comes to population and environment.

Now let's move to some of the tougher cases.

How about Milton Friedman?

Friedman has one big factor in his favor, namely that he is clearly the best economist on the list of contending names. If you had an economic problem, or a question in micro and macro, a consultation with Friedman (if possible) still would be remarkably valuable. He would give amazing comments on your paper or your policy idea, at least if we go back to Friedman at his intellectual peak. Still today, yes. If you had a question about economics and wanted to know the answer, he is the person on the list you would wish to ask. And this does not depend on you agreeing with "monetarism," "neoliberalism," or whatever sarcastic shibboleth you might wish to diminish Friedman with. He was simply a brilliant, first-rate economist. Furthermore, his contributions spanned a very broad number and variety of areas, micro and macro, theory and empirical work.

That said, I am not entirely sold on Friedman as GOAT. So why does he fall short? Well, on originality he just isn't quite good enough. Many of his best ideas can be found in earlier but still potent form in Irving Fisher and other predecessors, and that includes both the quantity theory of money and the permanent income hypothesis as a theory of consumption. "Not that there's anything wrong with that," you might be thinking, but for my purposes The Best Economist award seems to capture so many of Friedman's virtues.

Furthermore, Friedman's best-known policy idea – targeting the money supply – no longer is regarded as correct.

I will keep Friedman in the running, because being the best economist on the list counts for a lot. But he will rate most highly for those of you who attach relatively low weights on originality.

Adam Smith is a difficult GOAT candidate to rank, but it is easy enough to see what the issues are. Obviously he is the most fundamental and also the most original candidate on the entire list. If anyone has title to being “the father of economics” it is Adam Smith. And indeed that should count for a lot. Furthermore, my account of the substance of his contributions was glowing. You can imagine an alternative version of this book that ends on page one with a single sentence “Obviously the answer has to be Adam Smith.”

Yet this book instead has been written, and so you can infer that is not my actual view. The problem with Smith is the inverse of the issue with Milton Friedman. Of all the contenders for GOAT, Smith seems to be clearly the worst economist, with the possible exception of Malthus. Still Malthus had learned from Smith, but not vice versa, and Malthus is sharper on supply and demand than was Smith. Is there any economics class where you can imagine wanting Smith as your tutor? He might give fascinating feedback and drum up some generative insights, but is there any economic issue he can, in the counterfactual sense, analyze with much accuracy? “Adam, under what conditions does building more homes lower rather than raise local real estate prices?” “Adam, should the Fed cut or raise interest rates right now?” And so on.

Can you give the GOAT award to the worst or second worst economist on the list?

I do not see an objective answer to that question, but at the very least you should be able to see why I do not consider the GOAT issue to be settled. You can say it is unfair to ask Adam those hypothetical, oddly counterfactual, historically distant questions, but too many other people considered in this book would have pretty good answers, even if you did not agree with them all.

If you are going to clear all the hurdles to become GOAT, some of the challenges facing you are going to be unfair.

Is it fair that LeBron James has faced so much hectoring media and fan attention throughout his career? Or that other teams would exert special effort when they played against him? Maybe yes maybe no, but he was largely able to overcome whatever unfairnesses he encountered throughout his career. We might expect the same from GOAT contenders in other areas.

Now let us turn to the remaining GOAT candidate, namely John Stuart Mill.

Although he is not a common candidate for a GOAT designation, Mill has a number of arguments in his favor. First, he had a broad sense of economics, very much in accord with how economics is practiced today. When it comes to “topics considered,” I give Mill first place amongst the GOAT contenders. His Subjection of Women is one important contribution along those lines, but hardly the only one. He also was a major contributor to politics, philosophy, the humanities, and historical thinking.

I also give Mill first place for depth of thought and insight. No single book chapter can communicate fully that depth and insight, especially when it is written by a thinker (me) who is less deep than Mill was. Still, I recommend that you all read Mill through and see if you might agree with me. Hardly any contemporary economists have done this, and Mill is somewhat neglected even among historians of economic thought, at least compared to the other GOAT contenders. He attracts more interest from say political theorists and philosophers.

In my admittedly subjective view, Mill was “the best thinker about the world” of all the GOAT contenders.

For Mill to be a serious GOAT contender, you have to take the view that the subject matter of economics is not entirely well-defined, and that there is some broader entity, consisting of both social science and the humanities, that is prior to economic investigation. Mill was the master of that broader entity.

That all said, there are some serious negatives for Mill as GOAT.

First, he wrote a very long book on political economy. It was very good for the time, and it encapsulated and improved upon many of the claims of classical economics. Yet if you read the book it simply isn't *great* and it never would occur to you that perhaps Mill could be the GOAT. That hurts. In terms of original ideas, in economics *narrowly construed*, Mill is not close to the top.

Second, on empirics Mill did not do statistical work and that also limits his GOAT claim. Still, he was prescient on method and causal inference, and he was a remarkably keen observer of the world around him.

Third, while Mill was a much better economist than Adam Smith he is far from perfect on that score and he had no explicit access to marginalist thinking. He was surprisingly accurate in his assessments of many economic issues, for instance taxation. That reflected his brilliance. Still, if you sat him down and tried to use him as an analytical engine of economics, Mill would be tripped up by many questions. That said, Mill was very likely the greatest economist of his time, and the greatest pre-marginalist economist, so you can give him some support on this issue nonetheless.

Of all the GOAT contenders, Mill is my clear favorite as a thinker, but I cannot pretend that he has vanquished the competition to deserve a clear first place as the Greatest *Economist* of All Time. He does not. Still, since this is my book, his is the one name I want you to take away from this endeavor, and if that makes him an informal winner of sorts then so be it.

The bottom line

In sum, here are my awards:

Milton Friedman: “The best economist of all the GOAT contenders.”

Adam Smith: “The most original and fundamental of all economists. The father of economics.”

John Stuart Mill: “The deepest and most comprehensive thinker of all economists.”

I can’t quite give you a single GOAT, but those are my three picks for a combination award.

I also would hand out:

John Maynard Keynes: “The most influential policy economist.”

Friedrich A. Hayek: “Author of the best economics article ever.”

Thomas Robert Malthus: “The second most underrated GOAT contender, after Mill.”

I recall when I was a kid buying a DC comics book based on the premise of a race between Superman and Flash. If memory serves, at the very beginning they promised you there would be an actual, single winner with no hedges or qualifications or outs. Superman and Flash were going to race across the galaxy, and one of the two was going to come in first and win. It turns out it was Flash.

Well, if you turn to the early pages of this work I never promised you that. And so you must be content with this combination award. It is the most accurate answer to the originally posed question that I can come up with. And I don't feel I am running away from the question. I narrowed a field of dozens of contenders down to three, and identified in which area each of the three reigns supreme.

Might any future economist cause this book to become obsolete? Might a new GOAT lie ahead of us rather than behind us? No, I don't think so.

Today's economists are smarter and better trained than ever before, but something about economics has changed fundamentally. More specifically, economics is no longer a carrier of ideas. It is primarily a means of data collection and very sophisticated hypothesis testing. If you look at the works of the economists discussed in this book, they were all deeply concerned with questions of broader social evaluation. They all had ideas that went beyond economics into economic and political philosophy. And they are all plausible contenders for GOAT.

There were in fact important early economists who did not put forward these more philosophical considerations, such as Augustin Cournot. Cournot was a first-rate and highly original economist, and most of his work stands up to this day. Yet he is not a contender for GOAT, in part because his work on game theory was too narrow for that designation. Or in econometrics,

consider Ragnar Frisch or Jan Tinbergen, both of whom deserved their early Nobel prizes. They too are not serious contenders for GOAT, although Kenneth Arrow is, and that reflects Arrow's broader bent, both as a person and as a writer and researcher.

I am not saying this change in economics is either good or bad, rather I am observing that it has occurred. For one thing, the demands of specialization, and to produce effective tests of hypotheses, are higher than ever before. For another thing, the proliferation of literatures outside of economics (narrowly construed) has made it harder than ever before to be a successful generalist at the highest levels of professional achievement. And so we have split these two functions, namely "carrier of ideas" and "tester of economic hypotheses" into what are largely two separate groups of people.

I don't think the hypothesis testers, whatever their virtues, ever will contend for GOAT. They will win other titles, such as "tenured professor at Ivy League school" and "Nobel laureate," and they will deserve them. But GOAT will remain something special, and even striving for GOAT will be reserved for those who see the world in the biggest, broadest possible terms.

But those individuals are no longer the top economists, and they will not resume that mantle anytime soon, probably never.

This book is thus, among other things, a paean and tribute to a foregone era, and a plea that we will continue to recognize its importance.