

Lecture 13: Contributions from the period around 1900

Since we considered the three founding schools of marginalism taking also the followers into consideration, we now proceed to what followed outside the three more or less sharply defined directions of research. Many of the researchers treated here worked also in the first half of the 20th century, so that here and in the next lecture we are dealing with the development of economic thinking in the pre-Keynesian period.

The initial section of chapter 19 dealing with the British Historical School (which was less influential than the German) may be read quickly, we shall not return to them later.

E&H are very fond of **Thorstein Veblen** (and of the institutionalist direction in economics which he founded), so they use a considerable number of pages. It is quite reasonable to take notice of Veblen who differed markedly from what was mainstream in the period. You do not need to go into too many details, but the main notions (such as conspicuous consumption) are worth remembering. Pay attention to Figure 19-1 and its comments, but you may skip Figure 19-2 and the farfetched attempt of Leibenstein to put Veblen into a standard supply-demand story (with the strange construction of expected conspicuous prices, whatever that may mean).

With **J.K.Galbraith** (1908 – 2006), who was the most direct follower of Veblen, we have jumped to the second half of the 20th century. His book *The Affluent Society* from 1958 was a bestseller also outside academic circles.

This takes us to the end of chapter 19, but we supplement with some other (and as important) writers of the period, who have been given less space in our textbook.

Irving Fisher (1867 – 1947) is treated in chapter 22 (with Wicksell). He is perhaps the first representative of economics as we know it today (and one of the founders of Econometric Society). His research started with the quantity theory, placing him as one of the pioneers of macroeconomics, and this led him subsequently to considerations of price indices and of the theory of interest, where his contributions introduced the modern treatment of interest rates as prices of dated goods.

Joseph Schumpeter (1883 – 1950) is placed with the second-generation Austrians in chapter 23. He had his origin in the Austrian school of economists but his subsequent work went in another direction. His main point was the consideration of the role of innovation, which was (and even today largely is) absent from the economic theory of markets and growth. His theory of innovation and its role in business is

important and often referred to. The points are well made and intuitive, but typically they are not easily put into an alternative analysis of the economy as a whole, and Schumpeter did not give rise to a new line of economic research.

Arthur Cecil Pigou (1877 – 1959) has not got his own section in our textbook, but there are references to his work here and there in several chapters. He is known today particularly for his analyses of external effects (introducing the Pigou-taxes which play an important role in environmental economics), but his contributions to economics were rather broad, ranging from welfare theory and considerations of what later became national accounts to macroeconomics, where he unfortunately (even if not quite undeservedly) became associated with the outdated views contested by Keynes. His treatment of income inequalities, using the established doctrine about diminishing marginal utility of income to show that equalization of incomes increases welfare, may have been one of the reasons for abandoning this doctrine.

We read: E&H, chapters 19, 22, 553–555, and 23, 579–583.