CHAPTER 2

Classic Ideas of Modernity, Culture, and Progress

My first assignment as a graduate student in development economics in 2003 was to write a critique of an econometric study on land tenure and productivity in Burkina Faso. Having just graduated from an undergraduate programme in international development studies, I was eager to display my ability to undertake the most thorough and cutting critique possible—that, for me, implied an analysis from a post-development perspective. With a level of diligence and care only achievable by an insecure first-year graduate student, I prepared what was essentially a culture-based critique of the study. The gist: due to the author's hopeless immersion in an enlightenment-based, Western worldview, the variables used in the study were incorrectly chosen, and, furthermore, assumptions made about human "nature" were Eurocentric and not applicable to the African context. This, I argued, caused the author to generate misleading, irrelevant, and potentially harmful conclusions.

The head of the development economics programme at my university was a brilliant neoclassical economist who was clearly dedicated to improving the lot of the world's poor. He was trained in one of the highest ranked and liberal economics departments in the United States, and he had a reputation for pushing the limits of that discipline by writing about things like culture, arts, and social cohesion. The papers he would be grading from other students, I was sure, would be critiquing only the superficial parameters of the econometric analysis. But I was utilizing a theoretical perspective that had, arguably, emerged from marginalized

T. MacNeill, *Indigenous Cultures and Sustainable Development in Latin America*, https://doi.org/10.1007/978-3-030-37023-7_2

peoples themselves—one that challenged the authority of Western technocratic experts, questioned the discourse of development itself, and was inspiring radical new grass-roots revisualizations of the problems of development all over the "Third World." I was certain that my ability to slice into deeper issues and to understand the substantive critiques of development that were erupting forcefully from non-Western academics and social movement leaders would impress this cutting-edge economist as he graded my paper—securing for me his immediate respect, and a correspondingly high grade. I was wrong. As he handed back my work, he explained to me that he didn't grade it, that he didn't know how to grade it, that he had never seen anything like it, and that, frankly, he didn't understand it. There was an uncomfortable silence.

In this chapter and the next, I will try to locate the source of this uncomfortable silence. This will require a thorough review of the history of culture in development thinking. I will begin this review with a consideration of the historical roots of development theory in general in the current chapter. This will be followed by a taxonomy of postwar schools of thought on culture and development in the next chapter. I will argue that an intellectual break exists at theoretical and methodological levels between neoclassical economics and the other social sciences—one which precludes any meaningful discussion of culture. Further, I hope to explain that this uncomfortable silence is also represented in a fissure in understanding between Western enlightenment thinking and understandings that emanate from, or are at least embraced and transformed by, other traditions. The small pause in conversation that occurred between my professor and I was just one of many similar silences which pervade development theory, policy, and planning. These, I will argue, are symptoms of an ontological barricade that can and must be overcome if we are to have meaningful transdisciplinary discussions regarding development.

As Escobar (1999) has reminded us, the idea of development emerged in force in the immediate postwar period of the twentieth century. With the advent of the statistic of "annual per capita income," he explained, "almost by fiat, nearly 70 percent of the world's population were transformed into poor subjects" (p. 382). Resultantly, needs for economic growth and development "became self-evident, necessary, and universal truths" to the Western technocratic mind (ibid.). It was within this climate that, as Escobar (2005) would continue to argue,

> full of hopes and aspirations, scouting the landscape with fruition and eager to apply the best of his knowledge to a complex but exciting task, after having just left behind the cataclysm of the War and perhaps with the smile of somebody who is new to the world, there arrived in the Third World, dressed in full regalia, the Development Economist. (171)

This development economist was not, however, to remain a cohesive subject, nor was he alone. As I will argue later in this chapter, postwar development economics was split into two enduring schools: *Neoclassical Development Economics* and *Critical Political Economy of Development*. Furthermore, the technocratic and often materially reductionist experts of these two schools were joined quickly in the debate by postcolonial theorists who articulated the earliest of the *Cultural Approaches to Development*. It is around these three schools of thought that the story of the next chapter will pivot, but it will not do to start abruptly here. Despite the apparent suddenness with which he appears in Escobar's account, the liberal development economist was the product of a tangible history of thought—as were the critical political economist and the cultural theorist. It is to these histories that we must first turn if we are to understand development theory, and the place of culture within it.

It is the work of the current chapter to explore the important thinking that existed before the "invention" of the ideas of "development" and "underdevelopment" that occurred in the mid-twentieth century (Escobar 1999). It was this *pre-development* thinking that would make post-WWII ideas of culture and development possible. In this exploration, I will be looking to outline the main tenets of the various theories presented, and also to focus on the ideas of culture and development that appear, explicitly or tacitly, in each. Both the concepts of "development" and "culture" will be accorded a very wide definitional range in this review, since the goal is to tease-out the ways in which the theorists discussed tended to define these concepts themselves. Accordingly, any allusion to, or assumption of, what constitutes positive social change or progress will be considered a discussion of "development." "Culture" will be considered to be at issue when a theorist discusses any extra-individual social force that is presumed to impact the preferences, habits, motives, values, and valuations of actors, or their understanding of the way the world works. These concepts will be tracked through literature in *classical political economy*, early *neoclassical economics*, *Marxian political economy*, and *sociology*.

Classical Political Economy

Adam Smith

The bulk of mid-twentieth-century thinking on development stems from the same origin. Many claim that what I am calling both the neoclassical economic and the critical political economy traditions of development theory began with the publication of Adam Smith's foundational work of classical political economy *An Enquiry into the Nature and Causes of the Wealth of Nations* in 1776 (Deane 1978). Polanyi (1944/2001) goes further in suggesting that it was our very market-capitalist "civilization which started approximately with the publication of *The Wealth of Nations*" (47). These two opinions regarding the social role of Smith's text are telling and yield two key principles that will be assumed during the extent of this review of literature. First, texts such as *The Wealth* are *descriptive* let us understand the varying ways in which social phenomena have been understood in varying times and places. Second, they may be thought of as *productive* or *performative*. This, following Foucault (1969/2002), is meant to imply that such texts are embedded in larger discourses which tend to produce the very social forms that they mean to describe. In this sense we can examine *The Wealth* as an artefact that exhibits a particular way of thinking about economy and development, but we can also place the text within the context of historical social change in which ideas and discourses play an active part. That is, we can remember Polanyi's assertion regarding Smith's Opus that "no misreading of the past ever proved more prophetic of the future" (45).

In *The Wealth*, Smith embraced the enlightenment thinking of his time. It is no secret that he was an admirer of Sir Isaac Newton. In fact, Newton's depiction of the universe as a great machine in which particles were acted upon by a limited number of inalienable natural laws to produce a stable system was lauded by Smith as being "the greatest discovery that has ever been made by man" (1759: 3). It is evident that Smith followed Newton's lead in his own work. In the economic system that he described, human particles were propelled by a lust for individualistic personal gain—having a natural "propensity to truck, barter, and exchange on thing for another" in an attempt to satisfy their own self-interest (22–23). An anarchic and cruel Hobbesian jungle does not result for Smith, however, since two other laws—those of supply and demand—guide human interaction, through price signals, towards a stable, mutually beneficial equilibrium. In this way, the raw power of self-love inspires profits to be sought via division of labour, which allows economic man to take advantage of economies of scale and the benefits of trade. Smith argued that "although he intends only his own gain," this economic man—or *homo economicus*—is "led by an invisible hand to promote an end which was no part of his intention" (572). This end is greater economic output—the wealth of nations, or what it would later be called: development.

This simple depiction of the market as an efficient self-adjusting system that synthesizes self-interest with aggregate economic betterment is often all that is taken from *The Wealth*. To do so, however, is to forget much of what Smith wrote. First, he seems to have had a keen sense of the cultural construction of his seemingly "natural" economic man. Of the propensity to engage in market exchange in atomistic self-interest, Smith offers that,

> whether this propensity be one of those original principals of human nature, of which no further account can be given; or whether, as seems more probable, it can be the necessary consequence of the facilities of reason and speech, it belongs not to our present subject to inquire. (22)

Later, he argues that "the difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education" (25). This admission of the culturally situated character of homo economicus is not central to the thesis of *The Wealth*, however, since the topic is strictly related to economic action of humans within a market structure. Culture and non-price communication are almost exclusively assumed to exist a priori to and outside of the economy.

Smith's scepticism regarding the ability of markets to function in the real world, as his model suggests, is also often overlooked. For Smith, relation to the three essential means of production—land, labour, and capital—corresponded to three classes: "those who live by rent, those who live by wages, and those who live by profit" (336). The latter should not be trusted since "the rate of profit does not, like rent and wages, rise with the prosperity, and fall with the declination of society. On the contrary, it is naturally low in rich, and high in poor countries" (338). This is the case since high wages or rents necessarily erode profits. "The interest of this third order," Smith argued, "has not the same connection with the general interest of the society as that of the other two" (338). Government, according to Smith, must be wary of the strong political influence of this class and seek to protect competition in the face of their propensity to collude to create monopoly power. Furthermore, he believed that government should intervene in the economy to provide schooling, which he hoped would allow workers an opportunity to escape the routine and degrading work which resulted from the division of labour. He also saw an active government role regarding defence, protective tariffs, rule of law, quality control, banking regulation, public goods provision, postal service, administering copyrights and patents, according temporary monopoly rights to corporations in order to direct commerce towards socially beneficial ends, public health measures, maintenance of infrastructure, taxation to discourage improper or overly luxurious behaviour, and establishing ceilings on interest rates (Heilbroner 1996: 104).

The Wealth, for Smith, was meant to be contextualized within the larger philosophical theory that he outlined earlier (1759) with his *Theory of Moral Sentiments*. In that text, Smith insists that there are natural needs that humans are compelled to fulfil, such as needs for nutrients and shelter, but that these needs have an upper-bound—that homo *economicus* is not insatiable. What makes man seem insatiable, for Smith, is the need to communicate social belonging and status to others. As he explains, "the rich man glories in his riches, because he feels that they naturally draw upon him the attention of the world" (I.III.16). As a result, the compulsion to amass wealth is driven by "that emulation which runs through all the different ranks of men" (I.III.16). Furthermore, humans, Smith argues, are fundamentally creatures of empathy and sympathy, and these sentiments, in the end, trump any tendency to emulative self-interest. Markets, where humans compete and communicate only through prices, are well and good to the extent that they efficiently create wealth. In moments of crisis, however, humans adhere to higher sentiments of morality, ethics, and empathy. There is a "stronger power," he argues, that is "capable of counteracting the strongest impulses of self-love":

> It is reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter of our conduct. It is he who, whenever we are about to act so as to affect the happiness of others, calls to us, with a voice capable of astonishing the most presumptuous of our passions, that we are but one of the multitude, in no respect better than any other in it; and that when we prefer ourselves so shamefully and so blindly to others, we become the proper objects of resentment, abhorrence, and execration." (III.I.46)

In summarizing Smith's thinking, it is evident that the "natural" propensity to barter in maximizing self-interest is, in fact, a result of human social and communicative activity—a cultural activity. Further, the drive to self-interested behaviour that results from this social activity, according to Smith, is easily subdued by a higher propensity to engage in other-regarding behaviour. Markets, for Smith, may be capable of generating great wealth, but must be monitored and regulated not only by government, but also by the higher order of ethics and morality.

It should be no surprise that Smith gave ethics a central role in his conception of society. To do so was in keeping with much the rich tradition of Western economic thought that had preceded him. As Heilbroner (1996) insists, in economic thought in the Bible, by Aristotle, the Physiocrats, and by St. Thomas Aquinas, for example, the economy was not a separate system, but rather the economic was a type of action that must be morally judged as are all other forms of human conduct. Even with the "commercial revolution" in economic thought, beginning approximately with Mendeville in the seventeenth century, and continuing through with the mercantilists, economic action needed ethical justification. With Smith, and Cantillon before him, Heilbroner argues, focus shifted from the study of economics as an action, to the study of a *system* called the economy. But still, as we have seen, the discussion was morally, culturally, and politically situated.

David Ricardo

This tendency in political economy towards holistic analysis began to change with Ricardo, as the laws that Smith had referred to were taken out of cultural and ethical context (Deane 1978). The insatiability of homo economicus was assumed instead of historically or philosophically situated. The economic system was studied as just that—a system—not as a type of behaviour that should be morally judged (Heilbroner 1996). Importantly, as Deane (1978) explains, Ricardo's methodology "was mathematical rather than historical or philosophical," and his "technique of abstracting reasoning from a priori postulates … had important implications for the methodology of orthodox economic theory," in that "it helped to draw theoretical economics away from the real world" and "permitted economic theory to develop independently of other social sciences" (82–84). With Ricardo, classical political economy began to undertake a momentous shift that would eventually result in the dropping of the adjective "political" from the moniker, the pushing aside of ethics, and the expulsion of any concept of culture from its purview.

John Stuart Mill

This was not to happen immediately, however. J.S. Mill, widely regarded as the last of the great classical political economists, actually straddled thinking in the style of the classical school while prefiguring the coming marginalist revolution in economic thought—a revolution which would mark the end of the classical era. In keeping with the classical school, Mill importantly retained the labour theory of value from Smith and Ricardo, admitted political factors into his analysis, incorporated ethics (importantly, of a particular kind) into his analysis, and even left a bit of room for culture to seep in.

For Mill (1909), political economy was the study of "the nature of Wealth, and the laws of its production and distribution" (PR.2). One of the most important of these laws was encapsulated in the labour theory of value. For Mill, like Smith and Ricardo, the value of a good is ultimately "determined by the amount of labour needed to produce the good," and this, in turn, determines the "natural price" towards which market valuation will tend (III.15.11). The incorporation of the labour theory of value had consistently led earlier economists to insert a notion of conflict in their thinking of market—as the labouring class as makers of value were confronted by capitalists who, due to their negligible contribution to value, would need to take from the labouring class for their own material benefit (Hunt 2002, pp. 189–191). This inherent class conflict was downplayed by Mill, however, through his insistence that the provision of capital was a service provided by the capitalist and that this service contributed to the value of a good as well—an assertion he imported from Say (1863). Action in a market system, then, became a more cooperative affair, with both great classes contributing to the value of the goods created, but not one of assured social harmony. There existed a danger of class-based conflict within a capitalist system, but this tendency was eased by a need for cooperation between classes (Mill 1909, III.III–III.V).

Culture was admitted into Mills' (1909) analysis in some ways, and excluded in others. In order for a good to be ascribed a value in a market, for example, Mill argues that, "the thing must not only have some utility, there must also be some difficulty in its attainment" (III.2.1). The bulk of the text in Mills' *Principles*, is dedicated to the supply side of this equation. Of the origin of the utility values that are placed on goods—a topic that might well require a cultural analysis—Mill has nothing to say, choosing like Smith and Ricardo before him to limit the purview of political economy so as not to have to question the origin of desires. On the other hand, in his preliminary remarks to *Principles*, Mill suggests that culture and economy are linked together in a dialectic fashion as, "the creed and laws of a people act powerfully upon their economical condition; and this again, by its influence on their mental development and social relations, reacts upon their creed and laws" (pr.3). Other aspects of the institutional structure of a society, it seems, can also impact the internal constitution of its members. For example, when,

> all real initiative and direction resides in the government, and individuals habitually feel and act as under its perpetual tutelage, popular institutions develop in them not the desire of freedom, but an unmeasured appetite for place and power: diverting the intelligence and activity of the country from its principal business to a wretched competition for the selfish prizes and the petty vanities of office. (V.11.15)

Further, as Hunt (2002) explains,

> Mill … did not believe that all actions were motivated by self-interest. He believed only that most people whose personalities were moulded by a competitive capitalist culture acted out of self-interest in their economic behaviour. He looked forward, however, to a future, when, in a socialist or communist society, people would act from "higher" or "nobler" motives. (188)

Indeed, Mill suggested that although there are natural laws of production, no such laws exist relating to exchange or distribution of wealth. These things, such as markets and the institution of private property, result from "the existing state of knowledge and experience, and the existing condition of social institutions and intellectual and moral culture" (II.1.3). So, although culture is excluded from his theory of value, a fairly sophisticated dialectical and institutional version of the concept enters into his analysis in other places.

Mill, like Smith, incorporated a wider discussion of ethics within his economic analysis. It is this, along with his use of the labour theory of value, and his scattered cultural musings that make it fitting to call him a classical political economist. Mill incorporated and then expanded upon Bentham's (1781/2000) utilitarianism in his treatment of ethics. Bentham had argued that mankind acts under the impulse "of two sovereign masters, *pain* and *pleasure*," which "govern us in all we do, in all we say, in all we think" (p. 14). For Bentham, the use or *utility* of any object or action is determined by the extent to which "it tends to produce benefit, advantage, pleasure, good, or happiness, … or … to prevent the happening of mischief, pain, evil, or unhappiness to the party whose interest is considered" (14–15). Bentham argued that the impulse to maximize utility takes the form of an indisputable natural law, as it is dictated "by the natural constitution of the human frame" (16). He also thought of it as an ethically correct impulse. Since action that is "comfortable to the principle of utility" is by definition one that intends the increase of pleasure (or the decrease of pain), it is an action that "ought to be done" (15).

Unlike Say (1821/1863), Bastiat (1850/1964), Senior (1836/1928), and the many neoclassical economists that would come, Mill augmented Bentham's utilitarianism substantially. He asserted that although natural laws are present in production, in the sphere of distribution, humans obey the laws and customs of society. This implied that utilitarianism need only apply in one limited sphere and may be transcended as humans move further from the necessities of production. Principles of private property and even of utility maximization were denied the status of inevitable, natural, or even just by Mill in the socially mediated sphere of distribution. For Mill, human behaviour was tempered by human social institutions, and some acts could be judged as more ethical than others in the sphere of distribution (Hunt 2002, pp. 187–188).

Mill's use of the labour theory of value, his modification of Benthamite ethics, and his musings about culture-like phenomena could only confound those who wished to make a Newtonian-style science of political economy. A formal linear scientific model of economy required a particle (homo economicus) with clear natural propensities which, in the acting out of these propensities, would interact with a few natural laws in the production of a predictable equilibrium condition. The labour theory of value seemed always to inspire a sense of conflict—or disequilibrium—in models. His musings about culture and separation of production and distribution implied that homo economicus did not behave according to any immutable rules, but would change according to circumstance, and, in turn, would change those very circumstances—a very nonlinear concept that could never yield equilibrium in the Newtonian sense.

Mill was an ardent libertarian, however. The "business of life," he insisted, "is better performed when those who have an immediate interest in it are left to take their own course, uncontrolled either by the mandate of the law or by the meddling of any public functionary" (V.11.22). He held that the liberty of the individual "ought to include all that part which concerns only the life, whether inward or outward, of the individual, and does not affect the interests of others" (V.11.4). "In sum," he argued, "*laisser-faire* … should be the general practice: every departure from it, unless required by some great good, is a certain evil" (V.11.16). This libertarianism, mixed with positivist scientism and use of the concept of utility, prefigured much of the neoclassical economics that would emerge shortly after Mill's death. But, as we will see, for classical political economy to be transformed into the pseudo-science of neoclassical economics, ethics, history, culture, and the labour theory of value would all need to be ejected from the core of economic theory.

Neoclassical Economics

The Marginalists

The tension between the libertarian elegance of the self-regulating market and the conflict implied by the postulate that all value is produced by human labour would not do for those who would wish to make a Newtonian science of economics. The natural laws of the physical sciences at the time had no such conflict—only equilibria. No historical inquiry was required to predict the trajectory that an apple might choose in falling from a tree. The tendency of classical political economists to historically and socially situate their analyses and to shroud talk of the efficacy of the invisible hand with discussions of its failures could only distance economics from the status of pure science. Near the end of the nineteenth century, however, the marginalist movement managed to change the study of economics substantially. To Jevons, Walras, and later Marshall, this accomplishment represented a substantial move towards the perfection of the science of economics. It involved the permanent transformation of the historically situated social science that was classical political economy into the ahistorical mathematical pure science of neoclassical economics. In this transition, however, as much was lost as was gained. Among the gains were parsimony, elegance, and stature within the (social)scientific community. Among the losses were any engagement with the ideas of politics, culture, or development.

An important change that marked this revolution was made to the theory of value. Jevons (1871/1882) adamantly opposed the "prevailing opinions" that "make labour rather than utility the origin of value" and asserted instead that "value depends entirely on utility" (I.2). For marginalists, there must exist, a priori, a human want, or there can be no value. Humans would engage in exchange in order to maximize their utility by satisfying pre-existing wants and, in doing so, would establish, through the laws of supply and demand, the market price for all goods (Walras 1892/1996). The trick here is that it is not the total utility gained through consumption that is important in determining whether an exchange will take place at a particular price—it is the utility gained from the consumption of the last amount of commodity exchanged (the "marginal" utility). Furthermore, the utility gained through consumption decreases as the same commodity is consumed successive times (the marginal utility is diminishing). I may be willing to pay $5 for a glass of milk if I am really thirsty, for example, but not so much for my second glass, and I may refuse to purchase the tenth glass even if it is offered for free. Notice that the value of the milk does not depend on how much labour was used in its production here—it changes depending on the utility the consumer can expect to gain.

There is a lower bound to this price, of course, and it is determined by the marginal cost of production—the cost of producing the last unit. The price of labour would be included in this, as would the price of capital and land, but it is not the process of production that is thought to be the determinant of value—rather, it is the price for which labourers, capitalists, and landowners are willing to exchange their services in a competitive market. Given that the marginalists assumed that exchanges were entered into by free individuals who simply calculated utility gained minus utility lost for any given action, it seemed fair to Marshall (1890) to claim that "by far the greater number of events with which economics deals affect in about equal proportions all the different classes of society" (I.II.15). In a state of equilibrium (which is presumed to hold), all inputs are paid their proper price, and the proper price is presumed to be the equilibrium price. In this tautology, economics moved from being concerned with the study of the spheres of production and distribution with the aim of increasing national wealth, to being concerned only with the act of exchange which Walras (1892/1996) claimed, "constitutes the very foundation of the whole edifice of economics" (p. 44). Economics, as a result, was depoliticized—since value was presumed not to be the result of labour exerted but the act of free exchange, tensions between labouring and capitalist classes over the product of labour were removed from economic theory. This move from intrinsic conflict to harmonious exchange precipitated the change in moniker from "classical political economy" to "neo-classical economics."

Besides the depoliticization that resulted from the marginalist revolution, ideas related to culture were dropped as well. For either general (Walras 1892) or partial (Marshall 1890) equilibrium to hold, it was necessary to presume economic actors to have stable, unchanging preferences. As Jevons (1871/1882) asserted, "anything which an individual is found to desire … must be assumed to possess for him utility," and the impulse that drives the action of this individual is "to satisfy … wants to the utmost with the least effort" (III.2). The "utility" that each actor derives from his or her action, Walras (1892/1996) claims, "remains *fixed* for each party" (p. 117). This assumption of stable preferences precluded any idea of socially organized beliefs and values, unless these were presumed to be pre-formed and immutable. Thus, culture either did not exist, or existed outside of the purview of exchange, and therefore outside of the purview of economics.

Inquiries into wealth, development, or progress were set aside as well. At least since the publication of *The Wealth of Nations*, political economy had been given the central goal examining the mysteries of national economic development. This goal became secondary after the neoclassical turn. Economics became the science of exchange, and equilibrium models presumed that free exchange in competitive markets was, by definition, efficient in that it would only occur if the end result increased the utilities of all involved. The efficiency of markets implied that the maximum possible utility would be attained in the aggregate, given the current state of technology. Questions regarding the causes of technological change were set aside. Wealth, then, was assumed to be maximized as the result of free exchange, and economists, as a result, had no need to be worried directly about the laws of its production (Heilbroner 1999, pp. 197–228; Hunt 2002, pp. 372–395).

The ejection of politics, culture, and development from the purview of economics was part of the neoclassical turn from a *methodological holism* to *methodological individualism*. The former had looked at the actions, motives, positions, incentives, and beliefs of groups of people in its analysis. Methodological individualism mixed with marginalism tended to deny the significance of groups and conflict between them and focus analysis on individuals who engaged in free and harmonious trade. Importantly, humans are assumed in this model not to communicate directly with other humans. Homo economicus can communicate only through prices. The type of non-price communication that might lead to the social development of understandings and values cannot exist in a neoclassical world, since it would imply changeable, negotiable utility functions. This would introduce a nonlinearity into equations, which would make it impossible to claim that markets function efficiently, and would make the application of linear calculus impossible as well.

Basing analysis on the marginal unit, and combining this with the assumption that economic action was conducted by rational, atomistic individuals with stable preferences, was methodologically expedient in that it allowed "the application of differential calculus" to the concepts of "utility, value, demand, supply, capital, interest, labour, and all of the other quantitative notions belonging to the daily operations of industry" (Jevons 1871/1882, I.4). This mathematization finally gave economics the look of Newtonian physics, as "the pure theory of economics or the theory of exchange and value in exchange" became, as Walras (1892/1996) emphatically claims, "a physico-mathmatical science like mechanics or hydrodynamics" (p. 224). Such mathematical theory-building was to be the basis of a deductive, apolitical science of economics that focussed on the idea of efficiency at the expense of virtually all other concepts.

Despite the claims of the marginalists that theirs was an objective science rooted in laws of nature, neoclassical economics was endowed from the beginning with an ethical bias. Theory and mathematical exposition, as Walrus explained, was to come first in neoclassical methodology, followed by empirical observation which economists should use "not to confirm but to apply their conclusions" (qtd in Heilbroner 1999, p. 225). The assumption that economic life was rooted in the action of free individuals, then, was not to be questioned, but assumed, and historical or social data would not be permitted to show otherwise in analysis. This tended to lend itself to the scientific fortification of liberal ideals. Following in the libertarian tradition of Say and Mill, for example, Menger (1871/1950) used neoclassical assumptions regarding human nature to make a case for the sanctity of private property:

> Human economy and property have a joint economic origin since both have, as the ultimate reason for their existence, the fact that goods exist whose available quantities are smaller than the requirements of men. Property, therefore, like human economy, is not an arbitrary invention but rather the only practically possible solution of the problem that is, in the nature of things, imposed upon us by the disparity between requirements for, and the available quantities of, all economic goods. (p. 97)

Similarly, Walras (1892/1996) touted the inevitability, naturalness, and optimality of equilibria established in free-market transaction, arguing that "any value in exchange, once established, partakes of the character of a natural phenomenon, natural in its origins, natural in its manifestations and natural in essence" (p. 69), and that "the equations we have developed do show freedom of production to the superior general rule" (p. 256). More precisely, Walras believed that his equations showed that "exchange of several commodities for one another in a market ruled by free competition is an operation by which all holders of one, several or all of the commodities exchanged can obtain the greatest possible satisfaction of their wants" (p. 173).[1]

By depicting the economy as nothing more than a simple aggregate of rational, egoistic, autonomous individuals, by restricting the study of economics to the study of exchange, by jettisoning the labour theory of value for one based entirely on utility, and by formalizing their claims in mathematics (other than Menger), early neoclassical economists were able to add a strong discursive force to the argument for *liaises faire*—one that did not have to be validated by, or situated in, a study of history. In fact, to do the latter would, according to the proponents of the new science, be purely inductive and therefore ascientific. As a result, pure neoclassical economics is ultimately conservative and avoids any questioning of this ethic, as Hunt (2002) explains:

> Neoclassical welfare economics accepts as the ultimate ethical criteria of social value the existing personal desires, generated by the institutions, values, and social processes of existing society, and weighted by the existing distributions of income, wealth and power. Thus the theory becomes incapable of asking questions about the nature of an ethically good society and the ethically good person that would be its product. (p. 396)

The Keynesian Challenge

A major revision of neoclassical economics did not occur until the mid-twentieth century, in the writings of John Maynard Keynes. Although the

[1] Walras was never, in fact, able to show this to hold true even mathematically. Later Vilfredo Pareto would improve on Walras' exposition, and this work would be formalized by Arrow and Debreu (1954) but with similarly incomplete results.

extent to which Keynes' work represents a substantive challenge to neoclassical economics, as opposed to a mild revision, is debatable, Keynes did, at least in rhetoric, take issue with much of the core of neoclassicalism. For Keynes (1936/2006), economics was a human science—a social science—and it followed that attempts to mimic the physical sciences were misguided:

> The classical [and neoclassical] theorists resemble Euclidean geometers in a non-Euclidean world who, discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight—as the only remedy for the unfortunate collisions which were occurring. (p. 15)

This was a direct reproach of the neoclassical insistence on deductive methodology. Contrary to this, Keynes chose to build his theory from empirical observation first—inductively. He set out primarily to explain the existence of the violent economic waves of high economic output and low that were business cycles—those which seemed arbitrarily to either call on the great populations of the Western countries to employ their industriousness nearly completely, or to cast them in the thousands on the streets as vagabonds (Deane 1978).

His methodological break with mainstream neoclassical economics, however, did not represent a substantial break with neoclassical technique. In his *General Theory* (1936/2006), Keynes maintained the important neoclassical convention that wages were equal to the marginal productivity of labour. This generally led to the assertion that there was no such thing as involuntary unemployment—just that there were many workers who would not agree to work unless they were paid at a rate higher than the value of the extra output their labour created. He explained the obvious existence of intra-war involuntary unemployment as the result, ironically, of affluence combined with diminishing propensity to consume relative to wealth. The wealthy, Keynes argued, simply did not consume enough output to justify the employment of the entire labour force—this would produce both a glut of goods and high unemployment. The remainder of wealth in the hands of the more affluent was generally saved since, in absence of effective demand, there was little opportunity to undertake in employment-inducing investment.

Other than this assertion, and his accompanying insistence that monetary policy can have an impact on the general output of an economy, Keynes adopted virtually every neoclassical principal in his *General Theory*.

Importantly, this included the maintenance of the theoretical construct of homo economicus. He took, for example, "the tastes and habits of the consumer [and] the disutility of different intensities of labour" as "given" (p. 221). He also assumed that this creature was involved in calculations regarding how best to maximize his or her utility function—although restricted by an inability to accurately predict the future or know completely the nature of the current economic universe.

Changing the postulates that he did, however, yielded some important revisions in economic thought. The most important implication of Keynes' work was that the economy was not self-correcting. The problem of unemployment and stagnation amidst glut could not work itself out, and would instead result in a permanent downward spiral in absence of substantial countervailing external shock or government intervention. Keynes, therefore, called for the extensive use of monetary policy coupled with substantial government spending that would be designed to replace the lost consumption that affluence had created. Abhorring communism and highly disrespectful of Marxism, Keynes believed this to be the only way of saving the capitalist system from self-induced collapse.

The need for intervention made it necessary for an evaluation of ends and means by policy analysts. This, for Keynes, meant that ethics were a necessary part of economic thought. He wrote in a letter to Harrod in 1938 that economics "is essentially a moral science and not a natural science." He continued,

> I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, psychological uncertainties.… It is as though the fall of the apple to the ground depended on the apple's motives on whether it is worthwhile falling to the ground, and whether the ground wanted the apple to fall, and on the mistaken calculations on the part of the apple as to how far it was from the centre of the earth. (Keynes 1994, pp. 297–300)

Whether this quotation represents an allusion to something resembling the idea of culture, is unclear. This is the case with the bulk of Keynes' writing. In his earlier work (1920), he alluded to the idea that propensities to save could be impacted by public policy, for example, but his *General Theory* (1936/2006) treats humans very much like neoclassical automatons. Humans do interact and communicate in Keynes' depiction, but only with the inclination to guess the intentions of others in conditions of uncertainty based on incomplete information—the underlying tastes of economic actors remain stable, and they are therefore expected to react in more or less expected manner when government policy is exerted.

Although Keynes was emphatically not a Marxist, he did touch on the idea of ideology, which, as we will discuss, is central to the Marxian concept of culture. For Keynes, however, ideas, it seems, had impact by changing people's conception of the way in which the world and economy work. This does not necessarily imply an ideological influence on the tastes, propensities, and attitudes of human actors, rather the power of ideas to influence perceptions (in conditions of imperfect information) regarding the complexities of economic life. Furthermore, Keynes (1936) comes to different conclusions regarding the independence of these ideas from vested material interests compared with the Marxian conception:

> The Ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. (p. 351)

The idea of *development* exists only in seed form in Keynes' work. Developmentalism—the idea that "less developed countries" could be reformed in the image of capitalist Europe via government intervention—would be strongly influenced by Keynes' General Theory. He was instrumental in the founding of the Bretton Woods Institutions, including the World Bank—whose role it would become to oversee development projects in the Western-influenced post-WWII world (Martinussen 1997, p. 25). His General Theory, however, was more concerned with problems of unemployment and instability inherent in a capitalist system than with development per se. Nonetheless, he did realize that these phenomena impacted the "growth of wealth" in economies and the general well-being of populations (1936, p. 342).

The Austrian School

Another stream of economic though that is closely related to the neoclassical school should be discussed here, as it will influence post-WWII development theory substantially. This is the Austrian school of marginalist economics. It is not clear if this school should properly be thought of as a stream of marginalist economics that is to be distinguished from the neoclassical school of Walras, Jevons, Marshall, and Keynes, for example (de Soto 2008, pp. 2–4), or if Austrian economics is, in fact, neoclassical itself, and should be differentiated from the latter in terms of mainstream versus Austrian streams (Hunt 2002, pp. 264–276). If neoclassical economics is to be defined simply as a mode of analysis that uses marginal theory, assumes an actor with stable preferences, and tends towards the *laissez faire*, then the Austrian school is neoclassical. If it insisted that neoclassical economics must engage in mathematical exposition based on static equilibrium models, then Austrian economics is not neoclassical.

From its inception with the early marginalist work of Menger (1871/1950), the Austrian school has shunned mathematical exposition, since the latter is presumed to unsatisfactorily restrict the descriptive capabilities of the discipline. Other than this aversion to mathematics, three distinguishing features emerged through the evolution of Austrian thinking, via notable contributions from von Mises (1949/1996), von Böhm-Bawerk (1895), von Weiser (1911/1994), Hayek (1945), and Schumpeter (1942/1976).[2] These three distinguishing features are based around the idea of the entrepreneur, the way in which information is understood, and the treatment of time. Unlike mainstream neoclassical economics, the human actor in the Austrian conception is not just a docile calculator who tends to choose the easiest of a number of choices in maximizing his or her utility. According to Austrian theorists, the economic actor is motivated by an innate desire to create and discover his or her own world—of which there is always imperfect information—in the pursuit of increased utility. As opposed to the reacting atom of homo economicus, then, the Austrians have conceived an active, adventurous economic agent: the entrepreneur.

Austrian economists depict this entrepreneur as an engine that propels the ever-changing, ever-advancing economic system through time. This characterization of human nature allows the Austrians, unlike mainstream neoclassical theorists, to explain technological change. Through his or her

[2] Although a student of Weiser and Böhm-Bawerk at the University of Vienna, Schumpeter is only loosely affiliated with the Austrian school. This may be due to his lack of complete aversion to communism, his inconsistent methodology, his reluctance to credit his own teachers, or simply his arrogance. He did, however, maintain the centrality of the entrepreneur in driving a dynamic economy, which, despite his own accolades to Walras, positions him closer to the Austrians than to any other school.

creativity and inquisitiveness, the Austrians argue, the entrepreneur discovers and creates new information in an economy where information about the world is dispersed and subjective. Discovered or created information is then transmitted through price signals which ripple through the economy as the action taken by an entrepreneur with new information impacts his or her valuation of particular goods, thus provoking price changes. The progressive change this inspires in the pricing scheme of an economy in effect reorders the economic system—changing the economic landscape for all entrepreneurs. This inspires others to change their actions and create or discover new information—inciting further change. This, unlike the static depiction of mainstream neoclassicism, is a story of an economy that is constantly changing, and never quite in equilibrium, as it advances through time.

This is also a story of development. And development has a clear hero: the entrepreneur—whose action should not be interfered with. Menger (1871/1950) had insisted that the process of "development" begins with the entrepreneurial discovery of the division of labour, which "signifies a considerable step forward in economy and comfort" (p. 238). Schumpeter (1942/1976) lauded the gales of "creative destruction" unleashed by the capitalist businesses, as new opportunities and information are continually discovered by entrepreneurs which provided temporary advantage—yielding profits—and continual change and improvement. Entrepreneurs, for the Austrians, can create such innovation because they are masters of knowledge regarding their particular situation. Much of this knowledge is tacit and virtually unknowable to others. The portion of his or her knowledge that is pertinent to others, however, is transmitted through market prices. Austrian economists claim that it would be ludicrous for any individual, government, or other agency to presume to be able to apprehend all information, since information is nearly infinite, is constantly being invented or changing, is subjective, and is dispersed. No agent, then, should be allowed to constrain the action of the entrepreneur or the functioning of the price system. To do so would be to stifle efficiency, suppress entrepreneurial energy, distort price information, and consequently retard progress—perhaps precipitating economic crises. This, combined with an entrenched fear of overly powerful government, led Hayek (1944) to conclude that the strict economic controls and public works projects advocated by Keynes would lead countries down "the road to serfdom." "Development," for the Austrians, needs the entrepreneur, and regulation inhibits his or her heroic creativity, and misdirects his or her energy.

Culture is not a prevalent theme in Austrian thought. We are all entrepreneurs in this thinking. Some of us simply prefer current consumption to future discovery, or may not have the talent necessary to be successful. People have set interests, they,

> tend to discover that which interests them and, hence, if they are free to accomplish their ends and promote their interests both of these [ends and interests] will act as incentives to motivate them in the exercise of entrepreneurship. (de Soto 2008, p. 24)

Culture has not crept in here to impact these interests. Insufficient information about the world has, as Menger (1871/1950) argues, caused traditional peoples to misinterpret the "causal connection with the satisfaction of human needs" connected with certain objects and therefore to falsely value things such as "charms," "divining rods," and "love potions" (p. 53). But these are informational problems, not differences in cultural value systems. Traditional societies consist of individuals with specific interests just as do modern capitalistic ones. People's preferences, it seems, remain stable for Austrian economists—it is the constellation of prices, information, and institutions that changes, resulting in different behaviours (Menger 1871/1950).

Conclusion

As this chapter has hopefully revealed, classic liberal political economy is a more diverse and sometimes critical field than has been often admitted. Adam Smith's work stands as the most obvious example of this complexity of thought. Although his defining work abstracted from this, Smith repeatedly held space for both culture and ethics to enter political economic analysis. Similarly, Smith was concerned with the tendency of market-based economies to generate extremities of inequality, which would ultimately corrupt democratic systems if left unchecked.

These substantive complexities within liberal economic thought were slowly replaced by simplified mathematics as the discipline continued following Smith's death. The idea of development moved away from human flourishing and towards economic growth. Markets were increasingly viewed as ideal forms, and humans were increasingly viewed as insatiable units of consumption whose only important communication was performed through price-based market interactions. Eventually, instead of being the communicative act that continually re-formed desires and proclivities, culture became thought of as unimportant at best. At worst, culture was viewed as a traditionalist trap that locked primordial, change-resistant groups into enduring states of poverty. As the next chapter will show, many of these enduring assumptions would be challenged by critical political economists and sociologists, who would introduce concepts such as ideology while returning to Smith's concerns with inequality.

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