Review of "The Genesis of Macroeconomics: New Ideas from Sir William Petty to Henry Thornton"

by

David Colander

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DEPARTMENT OF ECONOMICS
MIDDLEBURY COLLEGE
MIDDLEBURY, VERMONT 05753

http://www.middlebury.edu/~econ

Review of

The Genesis of Macroeconomics: New Ideas from Sir William Petty to Henry Thornton

By Antoin E. Murphy, Oxford University Press, 234 pages, 2009-12-05

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Macroeconomics today is generally taught without context. With almost no discussion of context, the IS/LM model is presented to undergraduate students as macroeconomic theory and the DSGE model is presented to graduate students as macroeconomics. Even those lay books and undergraduate books that give some history of macroeconomics generally only go back to Keynes, as if macroeconomic thinking somehow began with in the 1930s. Graduate level books might go back to Solow's growth model, but most don't even do that. Even history of economics textbooks, mine included, give short shrift to macroeconomic thinking, and while they mention the development of macro thinking, it is more an afterthought rather than a central piece of the story. The story the history of thought books tell is one of the development of micro thinking, not of macroeconomic thinking. That, I think, is a mistake.

Antoin Murphy has set out to remedy that, and in this book provides a glimpse of early thinking on macro issues in an interesting and important book. He gives brief vignettes into eight early writers—William Petty, John Law, Richard Cantillon, David Hume, Francois Quesnay, Anne Robert Jacques Turgot, Adam Smith and Henry Thornton. He discusses how each of these economist's work advanced macroeconomic thinking. Key themes running through the though the essays include measurement of macroeconomic variables, the importance of banking to understanding the role of money, the role of trust in the economy and in understanding macroeconomic fluctuations. Three of the essays build on the author's previous work—his books on Cantillon and Law and his article on Henry Thornton. Some of the others may well serve as foundations for further work.

The book consists of ten chapters—an introduction, The Genesis of Macroeconomics, that provides of overview of the arguments in the book, eight essays, each discussing a selected author who had something to say about macroeconomic issues, and a conclusion where he justifies studying these older writers. He writes:

> For some commentators, seduced by the technical wizardry of modern macroeconomics, these contributions may represent just a laundry list of ideas. They will glance at the chapters of this book and exclaim "So What". So what indeed! Is it not time to give our subject some further colour? Is there no room for observing and analyzing the way ideas were conceptualized and then propagated? Is there no role for intuition any more? Good macroeconomics involves considerable intuition, an intuition that develops for investigating blank or blurred spaces and then linking ideas together to fill them. (215)

The structures of the essays are similar. He begins with a catchy discussion of some aspect of the author's life. The catch discussions are truly catchy, especially for those who aren't familiar with these writers. For example, he begins with a story of

William Petty with Petty resurrecting a cadaver that he was about to dissect. The John Law chapter begins with John Law killing (possibly for money) another man in a duel, and fleeing England for France. Murphy then provides some background on the writer, putting the writer in historical context. Thus, for example, he discusses Petty's work as a cartographer and how that played a role in his work in national income accounting, the relationship between Hume and Smith, and how Smith's relationship with one of the owners of a bank that failed in the Ary Bank Collapse likely influenced his writing and thinking about money and the real bills doctrine, and the relationship between John Law and Richard Cantillon and their parts in the Mississippi System. This leads to some interesting, and formerly unknown to me, connections, such as Law's early discussion of a circular flow of income model that influenced Cantillon's circular flow which in turn influenced Quesnay's tableau economique. Good stuff for interesting lectures.

The background discussion is followed by a discussion of the author's macroeconomic contribution, and it is here where the historian of thought will become most interested. Whereas the other discussion are highly accessible to all, these discussion can become relatively technical. In these discussions Murphy provides his interpretation of the author's work and argues for his interpretation in relation to other's interpretation. For example, in his discussion of Thornton, he compares his interpretation of events with those of another writer, Simon Schama, and discusses which interpretation is correct. This makes for a bit of unevenness in the writing of the book with parts of chapters relevant for laypeople, and others much more relevant for specialists, but also makes it a useful read for both groups of potential readers.

A number of themes run throughout this book. The first is that macroeconomic thinking did not begin with Keynes, or even with Malthus—macroeconomics was very much a part of economists thinking from the 1600s. A second theme is that the Classical/Mercantilist divide is an arbitrary one, and may be more harmful than helpful to our understanding of the evolution of economic thought. Early economic writers recognized the connection between finance and macroeconomic activity, and struggled to understand it and to design ways to deal with it. They fully recognized the role of credit in an economy, and their thinking was in many ways more advanced and useful in understanding crises than a modern DSGE model. A third theme is that in writing about these issues, learning by doing, and being part of the system, is an important element of understanding what is going on. Many of the most insightful of these writers, Thornton, Cantillon, and Law, for example, were highly involved in banking, and that involvement provided them with insight into how the system really worked. Once economics moved into the university, and writers on economics no longer were involved in the economy, the focus of economics changed, and many macroeconomic insights were lost.

Were graduate students of economics given this book to read and study in their first year of macro studies, they would have a better foundation for understanding the recent financial crisis than they currently do. As such, it is recommended reading for economic graduate students, although they should be warned that reading it will likely make them even more unsatisfied with your macroeconomic course than they currently are.