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William Milberg

The Robert Heilbroner Problem*

1. THE PROBLEM

When historians and economists refer to the "Adam Smith problem" they mean the difficulty of reconciling the highly empathetic and socialized individual presented in Smith's *Theory of Moral Sentiments* in 1759 with the asocial, self-interested individual Smith elaborated in *The Wealth of Nations*, which was published in 1776. The difference between the two is so remarkable that Smith would seem to have forgotten his earlier and more complex conception of the individual in his later and most famous work on economic progress.

A comparable problem arises in interpreting the writings of Robert Heilbroner over the past 50 years. Heilbroner's major contribution to academic economics has been in the area of the history of economic thought, a waning field within the economics profession, taught today in only a handful of graduate programs. But at the same time that Heilbroner was laboring over the dusty economics classics of the eighteenth and nineteenth centuries, he was also making a name for himself as one of the most respected commentators on contemporary economic problems and especially on the prospects for social betterment in the late-twentieth-century period of advanced capitalism.

How are we to reconcile the classicist with the contemporary critic? Are these two Heilbronerian oeuvres simply the reflection of two distinct intellectual interests? Or is it possible to identify a common

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conception of epistemology, society, and economy in both sets of writings? In this essay, I hope to show how these two strands of Heilbroner's writings are closely connected. The worldly philosophers' insistence on endogenous system dynamics, their focus on social determinants of individual psychology and behavior, and the rich interplay of morality and efficiency all help set the tone of Heilbroner's voice as prognosticator. At the same time, Heilbroner's deep concern with the prospects for late-twentieth-century capitalist societies provides the lens through which he interprets the history of economic thought. The dual Heilbronerian "voices" are not just compatible: the historical, ethical, and social grounding of the classical vision are what give meaning to his imagination of the prospects for capitalism in the future.

Heilbroner's work in these areas sits uneasily with that of his contemporaries. As prognosticator, he is too firmly rooted in the classical economists to fit in with the more technologically minded futurists such as Alvin Toffler or even Lester Thurow. As a historian of economic thought, Heilbroner is too forward looking for the more specialized academic journals. In fact, the only article Heilbroner has published in such a journal is an interpretation of the Adam Smith problem, an essay that gives unusual insight, we will see later, into the "Robert Heilbroner problem" itself.

Heilbroner's writings on the future of capitalism constitute a unique genre. Books such as *The Future as History* (1959), *An Inquiry into the Human Prospect* (1974), *21st Century Capitalism* (1993), and *Visions of the Future* (1995), along with articles in *Social Research, The New Yorker,* and *The New York Review of Books,* place him at the forefront of public intellectual life in the latter part of the twentieth century. In all of these writings Heilbroner regards capitalism as a particular economic arrangement with both creative and destructive tendencies that must be understood and intelligently managed if social improvements are to be made and disaster is to be avoided. The writings are also similar in their use of intellectual history, recapturing the early economists' vision of capitalism and projecting these visions onto a map of plausible scenarios for capitalism's future. What drives these unusual works of social prog-

nostication is a Smithian sensibility toward economics, aimed not at forecasting the future in any statistical sense, but instead—as Adam Smith wrote about philosophy in his *Essays on Astronomy*—at introducing "order into this chaos of jarring and discordant appearances, to allay this tumult of the imagination" (cited in Heilbroner, 1986: 16). For Heilbroner, "There is a deep human need to be situated with respect to the future . . . to rescue us from a conception of social existence as all contingency and chance" (Heilbroner, 1990a: 1112). The desire to give meaning to collective economic life led Heilbroner to connect intellectual history to the construction of plausible scenarios for society's future.

2. THE DRIVE FOR CAPITAL AND THE CRISIS OF VISION

Why would an analysis of prospects for the twenty-first century not rely on the latest economic theories, and especially those formidable scientific accomplishments of neoclassical economists in the last half of the twentieth century? Adolph Lowe, Heilbroner's professor and mentor, writes that the history of economics proceeded in the opposite direction from what one would expect of a science:

> In tracing the historical development of a science one expects to encounter a more or less steady progress from initial fragmentary insights to an ever more comprehensive body of knowledge in which, first, empirical regularities, then explanatory laws and more inclusive theories, and finally, a grand synthesis of all the special theories are established. The very contrary is true of the modern history of economics. At its beginning stand the grandiose designs of classical economics, marked by an expanse of substance and stringency of deductive reasoning that during the subsequent development was achieved again only by the classical heretic Marx. Thereafter theoretical development presents itself under the curious aspect of a progressive erosion of the original system (Lowe, 1975: 415).

Heilbroner's critique of neoclassicism builds on Lowe's overview by making explicit the absence of any recognition of the sociality of the economic system. Heilbroner notes that of the two celebrated textbooks in undergraduate economics published in the late 1990s, Gregory Mankiw's much touted 800-page tome contains one reference to the word "capitalism" and Joseph Stiglitz's 937-page, two-volume treatise never mentions the word (Heilbroner, 1999: 314, 315). Capitalism as a system of social arrangements has disappeared, it would seem, from the neoclassical representation of the economy. In *The Crisis of Vision in Modern Economic Thought,* Heilbroner and Milberg (1996) argue that this absence reflects a deeper problem in economics, in particular its identification of capitalism with markets pure and simple and its related tendency to emphasize mathematical technique over institutional complexity, power relations, and human psychology. By the end of the twentieth century, economics had reached the point where technique itself defined the scope of analysis. In the introduction to his graduate-level textbook of microeconomics, Eugene Silberberg (1990) writes that "economic problems are precisely those problems that can be addressed with the techniques of marginalism." Or as John Hicks, the Oxford economist and Nobelist put it, the technique of constrained optimization offered "a unifying principle for the whole of economics" (Hicks, 1946: 24).

Unified perhaps. But the reduction of economics to the problem of constrained rational choice with already given technology, consumer preferences, and distribution of wealth left the question of explanation behind. Heilbroner's concern with understanding the economy—the need to find meaning in economic phenomena in order to be able to control or improve them—is absent in the modern approach. Specifically, modern economics had at least four limitations for Heilbroner in his effort to develop scenarios of capitalism's future. First, the model of individual behavior—constrained utility maximization—tautologically explains all individual choices, but captures little of the complexity and sociality of human behavior. Exogenously given preference functions are simply inadequate to the task, since social norms, advertising, status, education, and information costs all factor in to individual choice.

Second, the neoclassical economists had equated capitalism with markets—impersonal, efficient, rational, optimal, and science-like. The past 50 years of economics have seen repeated efforts to justify this equation. Consumer preferences are given, not endogenous to social, political, and psychological forces; politics, unlike economics, cannot be expected to be rational (see Kenneth Arrow's impossibility theorem on social choice); and income distribution is understood as technological (not social)—that is, independent of any considerations of bargaining power or political forces.

Third, the neoclassical analysis was static, concerned mainly with efficient outcomes for a given set of conditions. Even economic growth was forced into the straightjacket of "steady state" analysis, which allowed for movement over time but little real change. Removing the turbulence, as Schumpeter emphasized, certainly removes from view the negative effects of market exchange. But it also leaves out the dynamism of markets in terms of technological progress and its diffusion.

Finally, economists sought to distance their analysis from normative judgments. Thus the assessment of social welfare largely ignores questions of distribution and fairness, resting heavily as it does on Pareto optimality (or, as in the case of international trade liberalization, "potential Pareto optimality"), or even, in more recent analyses, on the welfare of a single "representative" agent.

These various limitations of neoclassical thought are tied together. The focus on static problems of choice under constraints leaves no conception of past or future. The past is axiomatically given and the present harbors no possibility for change. With the disappearance of "capitalism" from the economic lexicon, we lose the idea of "capital" in the Marxian sense of self-expanding value. Capital is in the model (although not always), but only as a factor of production analogous to any other factor. Capital accumulation—the basis for economic change—is unhinged from broader economic, social, and psychological considerations. In particular, what disappears in this conception is the classical link of capital accumulation to the drive for wealth acquisi-

tion—the "drive for capital," as Heilbroner put it—severing the connection between psychology and economics.

In his book *The Passions and the Interests,* Albert Hirschman (1977) notes that in precapitalist societies, wealth acquisition is not generally socially acceptable. It is with the advent of capitalism that wealth acquisition becomes an acceptable end for all people, legitimizing the wealth acquisition drive. Hirschman in fact identifies the equation of passion with the wealth acquisition drive as a prerequisite for capitalist development. He describes the effort to represent passion (greed, lust, sexual pleasure) in the guise of economic interest as having occurred well before the publication of Adam Smith's *Theory of Moral Sentiments.* Already at the end of the seventeenth century, Hirschman writes:

> [T]he interests of groups and individuals were increasingly discussed in terms of economic aspirations. By the early eighteenth century we find Shaftsbury . . . speaking of the "possession of wealth" as "that passion which is esteemed peculiarly interesting." Hume similarly uses the terms "passion of interest" or the "interested affection" as synonyms for the "avidity of acquiring goods and possessions" or the "love of gain" (Hirschman, 1977: 37).

3. ADAM SMITH AND OTHER "GREAT SCENARISTS"

Like Lowe's "political economics," Heilbroner's scenarios were built on an extrapolation of the "magnificent dynamics" (as William Baumol puts it) of the classical economists. The key chapter of *21st Century Capitalism,* "Scenarios for the Future," is almost entirely devoted to the outlooks of Smith, Marx, Keynes, and Schumpeter, to whom Heilbroner refers as "the great scenarists." The scenarios range from pessimistic warnings about economic slowdown to hopeful descriptions of postcapitalist society: Ricardo is pessimistic because his model of long-run stagnation points to the risks that changes in income distribution—"the impending squeeze on workers and capitalists in favor of the fattening land-

lord"—could stall the pace of economic growth (Heilbroner, 1959: 42). Marx is "optimistic" since he sees the acquisitive drive in a competitive system leading to proletarian revolution, propelled by "a working class as the agent of its own liberation" (Heilbroner, 1993: 125). Keynes is an "analytical pessimist" and a "visionary optimist": the macroeconomy could remain (in equilibrium) for long periods of time with high unemployment. But active fiscal policy could stimulate aggregate demand and "crowd in" private investment.

The appeal of the worldly philosophers for Heilbroner's own project of scenario building is multiple. First, they emphasize the endogeneity of the economic dynamics. The rate of profit and investment are typically understood to drive economic growth, but they, in turn, are influenced by the power relation among the social classes, the contemporary political tendencies, the psychological forces on morality and self-interest, and even international relations.

Second, the endogenous model of capitalist development requires an appreciation both of capital accumulation and its "side effects," which may include stagnation of economic growth, rising unemployment or poverty rates, moral decay, or even social revolt. Thus the tensions resulting from capital accumulation were thought to require some social change—possibly revolutionary—in order to be resolved. Endogeneity and the need for change were linked. According to Heilbroner:

> [C]apitalism's uniqueness in history lies in its continuously self-generated change, but it is this very dynamism that is the system's chief enemy. The theme that runs like a basso ostinato through the overwhelming preponderance of scenarios is that the system will sooner or later give rise to unmanageable problems, and will have to make way for a successor (Heilbroner, 1993: 130).

While the classical economists insisted on the importance of rigid class distinctions, all the worldly philosophers nonetheless appreciated the social forces that influenced individual psychology. This took a range

of forms, from Smith's emphasis on empathy and social acquiescence to Marx's views on the irrational yet integral drive for capital; from Keynes's observations on human propensities to consume and save—the "animal spirits" that determine investment and the herd-like behavior in financial markets—to Schumpeter's conception of the entrepreneur driving capitalist competition and "the gale of creative destruction."

This insistence of the worldly philosophers on a psychological and even moral dimension to economic behavior resulted from their deep engagement in their times. I mean this not only in the obvious sense that their analysis reflected the particular stage of capitalist development of their day, but also that their understanding of the systemic properties of capitalism was closely linked to the political battles of the day. Smith's railings against mercantilism reflected his fear that privilege and corruption would sidetrack the attainment of a society of perfect liberty. Ricardo's concern with the corn laws led him to identify the damaging effects of rent. Marx's focus on the plight of the working class spurred political mobilization worldwide.

Anxiety over social change comes to the forefront in the twentieth century, with a great depression, the emergence of fascism in advanced capitalist countries, the outbreak of world wars, and the rise of a nuclear threat. And the twentieth-century postclassical worldly philosophers were as politically engaged as their classical predecessors. Keynes's focus on the problems of economic depression led to the theory of effective demand in his *General Theory of Employment, Interest, and Money.* Lurking behind Schumpeter's treatise on the future of capitalism is the dread of fascism's expansion, precisely out of capitalism's complacency. For Heilbroner, theories of economy in isolation, such as those that dissolve capitalism into pure market analysis, cannot explain social change, since economics, politics, and morality are linked: "[T]he engines of history do not draw all their energies from economic drives and institutions. If socialism failed, it was for political, more than economic reasons; and if capitalism is to succeed it will be because it finds the political will and means to tame its economic forces" (Heilbroner, 1996: 195).

Heilbroner's snapshot of capitalism emphasizes the drive for wealth accumulation, the prominence of markets, and the interdependence of the

state and the market. His dynamic picture of capitalism stresses the unprecedented rate of change in technology and productivity and the related possibilities of overproduction, international conflict, and rising inequality—the so-called side effects of accumulation. He writes, "It is enough to mention the problem of ecological damage caused by industrial processes to make clear that the negative aspect of the accumulation of capital is by no means a matter of past history" (Heilbroner, 1993: 59-60). This notion of the side effects of accumulation can be traced directly to Smith, and to what Heilbroner (1975) described as the "paradox of progress." For Smith, the advance of capitalism brings unprecedented wealth creation and the possibility of "perfect liberty." It also brings stagnation, poverty, inefficiency, systemic corruption, and moral decay. Referring to *The Wealth of Nations,* Heilbroner writes that "Smith's book—like his total vision—achieves its greatness because it mixes expectations of progress with a sobering recognition of the limitations of human capability."

For Heilbroner, the side effects of accumulation are as numerous in modern-day capitalism as in Smith's day. Heightened mechanization of production brings inequality and the deskilling of large pockets of the labor force. The growing size and scope of corporations leads to inequality, inefficient market power, and undue political and cultural influence. The spread of markets creates both microeconomic inefficiencies and macroeconomic instabilities that require a balancing force in the form of greater government intervention. Thus economic growth also threatens environmental degradation; technological advance brings forth the possibility of the calamitous use of technology in international conflict and nuclear war; the expansion of markets can bring excessive concentration of industry and inefficiency; and economic prosperity itself appears linked to growing income inequality within the United States and a development trap in the developing world.

The Wealth of Nations opens with a well-known description of the powers of the division of labor and market growth in raising productivity and well-being. But growth is not inevitable, and can be checked at any time because of rising wages, the creation of impediments to competition, or, over the long run, a slowing of technological progress.

Even in an expanding economy, worker alienation can reach devastating levels. Smith writes: "The man whose whole life is spent in performing a few simple operations . . . has no occasion to exert his understanding. . . . He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human being to become" (cited in Heilbroner, 1986: 155).

Competition is the driving force of economic efficiency, pushing prices toward their natural level. Such efficiency is unstable, however, as the political influence and economic power of monopolists is the norm rather than the exception:

> The exclusive privileges of corporations, statutes of apprenticeship, and all those laws which restrain, in particular employments, the competition to a smaller number than might otherwise go into them, have the same tendency, though in a less degree. They are a sort of enlarged monopolies, and may frequently, for ages together and in whole classes of employments, keep up the market price of particular commodities above the natural price. . . (cited in Heilbroner, 1986: 192).

The result of these and other tendencies raises a third apparent tension in a society of perfect liberty: the need for active state intervention, for education and the regulation of monopoly. "It is the duty of government," Smith writes, "to prevent the growth of cowardice, gross ignorance and stupidity. . . . For a very small expense the public can facilitate, can encourage, and can even impose upon almost the whole body of the people, the necessity of acquiring the most essential parts of education. . . (cited in Heilbroner, 1986: 306, 304). Heilbroner (1996: 105) identifies in *The Wealth of Nations* 14 different reasons for state intervention, including

> protecting the merchant marine and giving bounties to defense-related manufactures, imposing tariffs to obtain reciprocal reductions from other countries, taking

> measures against dishonesty, violence, and fraud, establishing quality indicators, such as the sterling silver mark, requiring employers to pay wages in cash rather than kind, regulating banking, providing public goods, such as highways, canals, and the like, running a postal service, granting patents and copyrights, according temporary monopoly rights to trading companies developing commerce in new or risky regions, requiring that children attain a certain level of schooling, providing protection against communicable disease, requiring public hygiene, such as clean streets, imposing taxation to discourage improper or luxurious behavior, and establishing ceilings on interest rates.

Heilbroner's Smith is a far cry from the Adam Smith whose profile adorns the neckties of right-wing libertarians in Washington, D.C.

Smith's purpose infuses Heilbroner's scenarios. At the core is the anxiety of everyday life in a liberal world that appears chaotic and uncertain. Only reasoned inquiry can diminish the anxiety from such apparent disorder and unpredictability. In his *Essays on Astronomy,* Smith writes that "[T]he repose and tranquility of the imagination is the ultimate end of philosophy." He elaborates: "Philosophy, by representing the invisible chains which bind together all these disjointed objects, endeavours to introduce order into this chaos of jarring and discordant appearances, to allay this tumult of the imagination" (cited in Heilbroner, 1986: 16).

Smith's approach is not the medieval one of faith as sedative, but the enlightenment one of knowledge through reason. Reasoned inquiry is not necessarily utopian. To the contrary, the "tumult of the imagination" would be "allayed" by the sense of both the possibilities and the pitfalls for the future of society. In Heilbroner's words:

> Science seeks to help us to live in a universe where Surprise and Wonder threaten to undo our necessary equilibrium, our essential peace of mind. Smith's achievement, then, is to

> allow us . . . to see science not merely as an awesome encounter with the Universe, but as a much less exalted undertaking whose purpose is simply to place the universe within the ambit of human understanding (Heilbroner, 1986: 16).

More than two centuries after Smith, the strong psychological appeal of scientific inquiry remains. Heilbroner continues: "Although couched in a language that bespeaks his age, Smith's account of science is in many ways as contemporary as his descriptions of our patterns of conscious thought and unconscious feeling. . . . We theorize . . . to restore our peace of mind" (Heilbroner, 1986: 16).

4. THE ADAM SMITH PROBLEM

Heilbroner's engagement with the Adam Smith problem sheds useful light on the Robert Heilbroner problem itself. The problem can be restated as follows: How could Smith have first elaborated in great detail the conditions of individual socialization in early industrial society and then dropped most of these rich psychological considerations in the subsequent development of his thinking on value, the division of labor, capital accumulation, international trade, and economic development? Debate over this question has revolved around two main positions. The first is that the dual conceptions of the individual in Smith's work reflect two distinct "voices." Jacob Viner, for example, writes that "there are divergences between [the two books] that are impossible of reconciliation" (Viner, 1958: 216). In this view, Smith had simply moved on in his later work to focus on the essence of economic behavior—individual self-interest—and in the process abandoned his earlier and more social conception of the individual in his presentation of market competition. The view dates back to Smith's own time: Pocock (1985) writes that Smith's two views were seen by "Scottish theorists . . . as distinct and ideologically opposite rhetorics (cited in Evensky, 1989, n 14). In our own time, Evensky (1989) maintains a sophisticated version of this view, referring to Smith's "two voices," one of moral philosophy, the other of civic humanism.

The second interpretation is that the individual of *The Wealth of Nations* is rooted in the socialization process described in the *Theory of*

Moral Sentiments. Macfie (1967), for example, writes that "the second book is founded on the first." On this account, *The Theory of Moral Sentiments* explores how self-interest operates even while other, moral considerations dominate, while *The Wealth of Nations* develops the economic logic of this socialized individual.

Heilbroner himself takes a radically holistic position on the Adam Smith problem. In "The Socialization of the Individual in Adam Smith," Heilbroner (1982) argues that the *Theory of Moral Sentiments* and *The Wealth of Nations* are integrally connected: "[T]he economic man of the Wealth is the prudent man who is the product of the Theory." Heilbroner identifies two aspects of behavior from the *Theory of Moral Sentiments* that become integral for individuals in *The Wealth of Nations.* These are "the drive for self-betterment" and the "principle of authority." The drive for self-betterment lies at the root of the pursuit of self-interest and exchange that support wealth creation, through both the expanded division of labor and the invisible hand. The principle of authority is crucial because it creates social stability, what Smith describes as the stability of the "distinction of ranks and the order of society." Thus the socialized man portrayed in *Theory of Moral Sentiments* seeks to accumulate wealth and acquiesces to rank. *The Wealth of Nations* shows the economic consequences of this under a particular institutional setting, including a legal system ("rid of feudal and mercantilist privilege and encumbrance," a system of private property, political stability, and a state "providing justice, defense and necessary public works" (Heilbroner, 1982: 434), all necessary conditions for the political security and freedom of contract that create economic growth and the possibility of social progress.

Heilbroner's resolution of the Adam Smith problem is extreme. He finds deeper connections across Smith's writings even than those who see a consistent treatment of the individual in *The Wealth of Nations* and the *Theory of Moral Sentiments.* I have argued that the "Robert Heilbroner problem" can be similarly resolved by recognizing the deep connections across Heilbroner's seemingly separate intellectual pursuits. The paradox of progress, the melding of the social and psychological, and the integration of normative and ethical issues into the model of economic dynamics provided Smithian foundations for Heilbroner's own view of capitalism's future.

5. VISION VERSUS PREDICTION

The irony is that the specific predictions by the worldly philosophers were mostly inadequate: Smith's stadial history of economic development lacks a clear causal mechanism. Ricardo's theory of the necessity of a long-run rate of profit of 7 percent is uncomfortably arbitrary. Marx never predicts the "bourgeouisification" of the working class. John Stuart Mill's wages-fund theory of labor compensation is static and one-sided. And Schumpeter's predictions about the likely demise of capitalism are widely considered more as provocation than serious prognosis of social trends.

Heilbroner's embrace of the classicals and rejection of the modern-day neoclassicals hinges on the Schumpeterian distinction between "analysis" and "vision." Schumpeter defines vision as the "preanalytic cognitive act" that "enters on the very ground floor." It is "ideological almost by definition." Analysis is the largely deductive process that follows from the theory's foundations. As intellectual historian, Schumpeter (1954) separated economic analysis from its vision, leading to the posthumously published *History of Economic Analysis,* one of the great achievements in the field of the history of economic thought.

Heilbroner embraces the Schumpeterian categories, and especially the notion that vision is an inevitable part of the process of theorizing, since "All systems of thought that describe or examine societies must contain their political character, knowingly and explicitly, or unknowingly and in disguise." (Heilbroner, 1990b: 109) But Heilbroner resists Schumpeter's separation of vision and analysis, since connecting the two allows a greater appreciation of how economic scenarios are formed. The enormous popularity of *The Worldly Philosophers* was not just because of its inclusion of juicy biographical details on the early economists, but because the biographies put in context the lively imagination of "the great scenarists." Vision, Heilbroner argues, provides much of the creative impetus for understanding social life, since vision is the expression "of the inescapable need to infuse meaning—to discover a comprehensive framework—in the world" (Heilbroner, 1990b: 1112). It is precisely the persistent denial of the role of vision that leaves modern

economics so limited as a tool for understanding social life. In sum, it is the classical vision and not its analytical accomplishments or even predictions that Heilbroner finds so useful for his scenarios:

> These remarkable scenarios perhaps have been the most significant accomplishment of economics, not because any of them turned out to be wholly prescient, but for a reason of which I suspect their originators were unaware: to provide a plausible framework within which to face that most fearsome of psychological necessities—looking into the future. As we study and compare these bold projections, their rightness and wrongness fade in importance before their ministration to this common need (Heilbroner, 1995: 5-6).

Thus, the Robert Heilbroner problem has never been one for Heilbroner himself. *The Worldly Philosophers* was his first book and the 25 that followed over the ensuing 50 years continued to bring the history of economic thought to bear on the future prospects for capitalism. "As we listen to the debates which now surround us," Heilbroner concluded the final chapter of the first edition (1953) of *The Worldly Philosophers,* "we can recognize voices of the past in the tumult of the present. . . . It is from the scope and wisdom of economists of the past that we must reap the knowledge with which to face the future."

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