

ECONOMICS

An Introduction to Traditional
and Progressive Views



7TH EDITION

Howard J. Sherman, E.K. Hunt,
Reynold F. Nesiba, Phillip A. O'Hara,
and Barbara Wiens-Tuers

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Foreword by Robert Pollin

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Dedicated to
Barbara, Brandon, Dan, Jody, Nathaniel, and Rhoda
WITH LOVE

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Foreword

ROBERT POLLIN

Economics should be an exciting subject for anyone who cares at all about the world we live in. What are the opportunities for getting a job and getting paid decently? Are the opportunities available today likely to erode over time, if businesses look to scour the globe for the cheapest possible pools of available workers? If we put our money in a bank, pension fund or the stock market, will it be safe, or vulnerable to the speculative excesses of Wall Street? Why do more than a billion people wake up each morning to lives of severe poverty while a tiny elite live in splendor? Why is our very existence as a species on earth threatened by our abuse of the environment? These are some of the basic questions on which economics is capable of shedding a clear, powerful light.

But if this is so, why is it also true that most economics textbooks are tedious, intimidating or some combination of both? One major reason is that economics does include technical issues that students should understand, such as why a bunch of bananas will cost perhaps \$1.25 while a gallon of gasoline costs \$3.00. Why don't they both cost \$3.00, or for that matter, \$2.00? Such price differences are part of our everyday lives, and we take them for granted. But explaining what's going on to set bananas at \$1.25 and gasoline at \$3.00 does entail learning a bit of technique.

Still, almost anything worth doing involves mastering some techniques, including hitting a baseball, playing a trumpet, or cooking. The problem with most economics textbooks is not that they present techniques, but that they get so bogged down in a welter of graphs, equations and terminology that the real substance of economics—the fundamental questions about our living standards, our sense of community and security, and viability of our environment—get shunted aside. It's as though we are taught the steps for baking a delicious cake but are never given a chance to eat it.

This brings us to *Economics: An Introduction to Traditional and Progressive Views*. This is no ordinary textbook. Its authors, Howard Sherman, E.K. Hunt, Reynold Nesiba, Phillip O'Hara, and Barbara Wiens-Tuers, do guide you ably through the steps of baking the cake. But—most important—they also give you a chance to sit down and savor the fruits of your effort. In other words, this textbook stays focused on the lively and challenging substance of economics.

I learned this first-hand as a student reading the initial edition of this book 30 years ago. I had the good fortune as a beginning economics graduate student of having a professor—indeed it was a quite eminent professor, the late Paul Sweezy—tell me that I needed to read this book. Until that moment, it had never occurred to me that a textbook, any textbook, in any subject, could actually be exciting. But *Economics*, in its initial edition, rose to that very difficult standard. Thirty years, six editions, and many revisions and improvements later, it still hits that mark.

Among the many strengths of this edition is its inclusion of a full section on economic history and history of economic thought that is far superior to any other general introductory work. This edition also pushes into new territory, including, among other things, a wide-ranging discussion of globalization. By now, the term “globalization” is a ubiquitous buzzword. But what does it really mean and what relevance does it have for the lives of ordinary people everywhere? This book guides its readers artfully through a bramble of complicated details to deliver a clear, compact but still authoritative discussion.

More generally, this book proceeds in a highly original fashion, as its subtitle, *An Introduction to Traditional and Progressive Views*, suggests. It presents the main issues in the field as a contest of ideas among thinkers who seek to both interpret the world in various ways and to change the world, in equally various ways. For example, the authors make clear that macroeconomics is anything but a frozen body of knowledge requiring that students merely memorize a standard collection of graphs. There are burning questions to face, such as whether capitalist economies can deliver an abundance of decent employment opportunities—something approximating full employment—without government intervention into the operations of free markets. And if the answer to that question is “no,” then what types of government interventions, if any, might be capable of delivering full employment?

Equally with microeconomics: can we rely on the competitive pressures of a free market economy to, for example, force businesses to operate at an acceptable level of environmental responsibility? And if the free market isn’t effective for addressing global warming and other pressing environmental concerns, then what do we do about it?

These are the types of questions that Sherman, Hunt, Nesiba, O’Hara, and Wiens-Tuers invite us to ponder on almost every page. This book won’t give you all the answers, but it will force you to think in new and unexpected ways. *Economics* thus serves as an invaluable resource for all students interested in both interpreting the world and perhaps even changing it for the better.

Robert Pollin is Professor of Economics and Co-Director, Political Economy Research Institute, University of Massachusetts-Amherst

Preface

Most courses on economics present only the traditional point of view. We wrote this book so that people can teach the whole spectrum of views from very conservative, traditional views to nontraditional, progressive views.

EXACTLY HOW IS IT DIFFERENT?

This difference from most other texts is seen in each part of this book. In Part I we present the history of all of the points of view in economics, though this is ignored by most books. Part I explains the traditional views of the Classical and Neoclassical economists. But it also explains the nontraditional views of Marx, Veblen, and Keynes, as well as many other progressive viewpoints, such as feminist economics.

Part II presents microeconomics. Almost all other texts discuss these problems only from the traditional, neoclassical view. This book first presents the outlooks of feminists, institutionalists, Marxists, Post Keynesians and other progressive economists before discussing the traditional Neoclassical approach. This section also addresses problems such as poverty, discrimination and the environment. The traditional neoclassical approach is then presented in full, along with the criticisms of it.

Part III discusses macroeconomics, and explores business cycles, unemployment, and inflation. It presents the traditional views from J.B. Say to modern Neoclassicals. But it also presents the Keynesian, Veblenian, Marxist, and other progressive approaches.

Part IV presents the debates now raging over international relations and globalization. Both traditional and progressive sides of the argument are discussed.

WHAT'S NEW?

The seventh edition includes the history of thought in Part I as it always did. Part I in this edition also explains in historical detail the evolution of economic institutions from the earliest societies to the present.

Part II has been expanded, not only with newer progressive views, but with ten chapters of neoclassical economics. Both Parts III and IV have shed all their old data and illustrations and bring the story right up to date. Much of Part IV, dealing with the functioning and debates on international relations and the global economy, did not exist before this edition.

Finally, we have made the book more user-friendly. Learning Objectives at the beginning of each chapter tell the student where the chapter is heading and what questions will be answered in the chapter. Key Terms will appear in boldface type in the text and will be listed at the end of each chapter. A Summary of major points will appear at the end of each chapter. Review questions also appear at the end of each chapter. Suggested readings are also provided in many chapters for students who wish to delve more deeply into a particular topic.

HOW TO USE THIS BOOK

The instructor may choose among options as to how much Neoclassical economics to teach. The ten Neoclassical chapters each contain a basic presentation of the Neoclassical theory, followed by progressive criticism, followed by all of the technical details of Neoclassical economics. These chapters are separate from the progressive chapters, which precede them. It is thus possible for an instructor to present the technical material of Neoclassical economics in one of three ways: (1) in great detail; (2) in a brief, basic way; or (3) not at all.

The instructor is also given flexibility by the use of a large number of appendices in all parts of the book. Some of the appendices are far more technical than the chapter text. Some of the appendices are not technical at all, but contain interesting discussions of issues somewhat different than the chapter text. The existence of these appendices allows the instructor to pick and choose which ones to use for teaching.

WORDS AND CONFUSION

The nontraditional economists cover a wide spectrum of politics from mildly liberal to extremely radical, as well as a variety of schools from Keynesian to feminist. It is hard to find a single term to describe all of them. We shall use the term “progressive” to cover what is common among them, but will sometimes mention their disagreements.

Another area of confusion lies in the description of men and women. Many previous texts have described the economy on the assumption that only men work in the economy. Since half the human race is women, we shall not use “he” or “men” to describe all people. Sometimes we will use the term, “he or she.” Because of the past discrimination against women, we will use male forms only when we mean men, not women.

Another difficulty with words is what to call the people of the United States of America. We shall speak of United States, U.S., or America as it is convenient to do so. The people living in the United States will usually be described as Americans, since that is the most common and convenient term. But Latin Americans also consider themselves to be Americans. Only when referring to Latin Americans will we make the distinction clear. By so doing, we mean no insult to Latin Americans.

COORDINATION

All of these terms and practices, plus many decisions about the content of the book, must be uniform and consistent throughout the book to avoid confusion. But we have five authors. In many books, the fact that there are five authors guarantees confusions and inconsistency in both style and content. We have tried to avoid that in the following way. One author was made the “coordinator,” whose job was to rewrite every single chapter of the book until they were uniform in content and style. But in a long book, even a single author can be inconsistent. So we had another author

follow after the coordinator and remove small inconsistencies from every chapter. We therefore hope that the whole text is a unified one.

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We are grateful to Dell Champlin for preparing the Instructors Manual for this edition of the text. Finally, we acknowledge the students we have encountered over the years who have forced us to think more clearly about how the world works.

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PART I

ECONOMICS OF HISTORY AND HISTORY OF ECONOMICS

PART I, SECTION 1

THE LONG ROAD TO CAPITALISM

Chapter

- 1 Prehistoric Communal Institutions in the Middle East
- 2 Communal Equality to Slavery in the Middle East
- 3 Slavery to Feudalism in Western Europe
- 4 Feudalism and Paternalism in England
- 5 Feudalism to Capitalism in England
- 6 Mercantilism in England
- 7 Pre-Capitalism to Industrial Capitalism in the United States, 1776–1865
Appendix 7.1: Slavery in the United States

CHAPTER 1

Prehistoric Communal Institutions in the Middle East

This chapter begins the story of the evolution of the earliest humans and their societies. It describes the key characteristics and advances of prehistoric communities. This chapter also introduces and explains how the four categories of technology, economic institutions, social institutions, and ideology provide a useful framework for examining human societies. The interaction of the four categories in prehistoric communal societies explains why those societies survived and also explains why these societies did not change for an incredibly long time.

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- Comprehend* the genesis of human beings and early societies.
- List and explain the four basic institutions of human society.
- Describe the six ways in which the four basic institutions of society interacted in prehistoric society.

THE VERY BEGINNING

Our sun and planets evolved over an enormous amount of time. The earth was originally uninhabitable by life as we know it. Over billions of years the earth eventually developed an environment in which we can survive. The geological changes in the earth are revealed in its layers of rocks. For example, some rocks show plant fossils from a million years ago or reveal violent volcanic eruptions.

When the environment permitted, life evolved in spots where all the necessary elements happened to be together. Life evolved from the simplest virus-like creatures that lived at least three billion years

*To comprehend something means to have an understanding of it and the ability to describe it in your own words, to paraphrase, give examples, and translate it from one form to another (for example, words to numbers or numbers to words).

ago. Charles Darwin showed how *nature selects from the existing individuals the ones best suited for survival under particular conditions. Eventually this type of individual has the highest reproduction rate, and over a long period of time that fact leads to changes in the species.* This process of change is called **natural selection**. Thus new species evolved, including human beings.

At the time our first hominid ancestors (of the genus *homo*) evolved on grassy plains, they made simple tools and weapons from pieces of wood or stone or bone. Remnants of early humans are dated to six or seven million years ago, but the exact time is still controversial. Those with better brains could use tools and weapons more effectively, thus improving their chance of survival. This process led to slow enlargement of the brain. Hominids with a larger brain could improve the use of tools. An erect stance allowed early human beings to hold tools while running farther, increasing their survival chances. A new species of *Homo sapiens* (our present species) became dominant over 100,000 years ago. Eventually, the older species disappeared. There is much debate among scientists whether *Homo sapiens* wiped out the older types of hominids, interbred with them, or if they just died out.

The earliest societies developed by *Homo sapiens* endured through most of the last hundred thousand years. How do we know anything about societies that existed tens of thousands of years ago? Many societies of the past three to four thousand years had the ability to write down their languages, so scholars can translate their documents and learn a great deal about them. But earlier societies were **prehistoric** (*meaning before written history*) and had no written language. Two kinds of evidence are available on the earliest human societies. First of all, archaeologists dug up the earliest dwellings and graves containing weapons, tools, and ornaments, as well as skeletons. From this evidence, archaeologists deduce an amazing amount of information about how early humans lived.

Second, in the past two centuries anthropologists studied existing societies that resemble the prehistoric societies, though the numbers of such societies have steadily declined. One problem in using this kind of evidence is that we cannot say for sure whether existing societies that resemble the prehistoric ones behave exactly the way prehistoric ones did. Moreover, the evidence is contaminated because these societies were in contact with more advanced societies. If no one else, the anthropologist herself has contacted the communal society and therefore changed it. Nevertheless, in the past two centuries anthropologists accumulated an immense amount of reliable information on the earliest type of society.

THE FEATURES OF PREHISTORIC COMMUNAL SOCIETY

To understand prehistoric societies and how they changed, it is useful to examine the four key institutions of a society. **Institutions** are *sets of customs, laws and norms that influence, enable or constrain human behavior*. The four main categories of institutional structures of any society are technology, economic institutions, social institutions, and ideology.

What is meant by **technology**? We think of technology today as modern gadgets and machines, but it means far more than that. *Technology is the way that human beings produce goods and services*. Technology is based on the knowledge of how to do things, the available skills of the labor force or workers, the amount of production by each type of present equipment, and the quality of land and natural resources available. The technology of the early communal societies was based on knowledge about simple stone, bone, or wood tool making and was used for hunting, fishing, and the gathering fruits and vegetables. Since prehistoric societies lived off of hunting and gathering food, small groups had to roam over a large amount of land to find their food supply. The total labor force of each group was small, estimated at five to thirty-five people.

Table 1.1

Four Features of Early Communal Society

Technology	Earliest stone tools; hunting and gathering
Economic Institutions	Common ownership by extended family
Social Institutions	Group consensus
Ideology	Community togetherness and equality

An **economy** is the process through which a society provisions itself with the goods and services that it needs to survive and grow. **Economic institutions** are sets of relations between people doing economic activities and the ways that people interact in the economy. An economic institution is not a “thing” or a “place.” The main prehistoric economic institution was an extended family of brothers and sisters, cousins, aunts, uncles, parents and grandparents. There was a division of labor between men and women and a division of labor between young and old. Men, usually as a group, did most of the fishing and hunting. Women, usually as a group, gathered fruits, nuts, and vegetables. The division of labor between genders, however, was far from absolute because the men probably often gathered fruits and vegetables, while women probably hunted small animals. These two collective groups delivered their food to the whole band and the whole band consumed the food. This little collective group was isolated and seldom interacted with other groups.

Such *family-based collective* or **communal societies** have been present for 90 to 95 percent of human existence. No one word describes all aspects of family-based societies, but the term “communal” emphasizes the collective nature of their economic institutions. Since everyone worked together and everyone consumed the product, the prehistoric communes had no use for the market. Thus, the communes were non-market societies. (Remember, of course, that such early, family-based communes had little or nothing in common with the utopian groups called communes in the nineteenth and twentieth centuries.)

Social institutions are defined as *all the non-economic ways that people interact, such as the political process, the family, or religious organizations*. The earliest institutions were very simple. There was no separate government and most decisions were made collectively. There were no separate, organized religious institutions. Instead, the whole community took part in various ceremonies. There was no separate education system. Education consisted of learning from your parents and the rest of the band by following their example. There were no separate media. News was spread by everyone around the campfire.

Ideology is defined to mean *a more or less coherent system of ideas about how society works and how we should behave within a given society*. We may believe that an ideology is good, like democracy, or bad, like the idea of burning witches. Everybody has an ideology or ideas about how things work. Ideology is simply a particular viewpoint that integrates many of one’s ideas. The early communal social ideas (or ideology) reflected their life and environment. If the earliest groups behaved like similar small bands of people discovered in the nineteenth and twentieth centuries, then they valued cooperation among all individuals in the band. They also had a set of superstitious beliefs which were centered on animals and natural forces such as lightning.

The four features of communal society are summarized in Table 1.1.

Studying the four key institutions of early communal society raises many intriguing questions. When one asks how the four institutions fit together in the social whole that was prehistoric communal society, the tale becomes even more exciting!