

Lecture 13: Contributions from the period around 1900

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

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

Joseph Schumpeter (1883 – 1950) had his origin in the Austrian school of economists but his subsequent work went in another direction. His main point was the consideration of the role of innovation, which was (and even today largely is) absent from the economic theory of markets and growth. His theory of innovation and its role in business is outlined in V&G, The points are well made and intuitive, but typically they are not easily put into an alternative analysis of the economy as a whole, and Schumpeter did not give rise to a new line of economic research.

Arthur Cecil Pigou (1877 – 1959) is known today for his analyses of external effects (introducing the Pigou-taxes which play an important role in environmental economics), but his contributions to economics were rather broad, ranging from welfare theory and considerations of what later became national accounts to macroeconomics, where unfortunately he became associated with the outdated views contested by Keynes. His treatment of income inequalities, using the established doctrine about diminishing marginal utility of income to show that equalization of incomes increases welfare, may have been one of the reasons for abandoning this doctrine.

We postpone Sraffa to a later treatment, since his main work appeared only in the 1950s. Instead, it seems reasonable to mention **Thorstein Veblen** and the institutionalist approach to economics, which had several followers in the 20th century, see the Lecture Note 13.

We read: V&G, chapters 26, 27 and 28.