



A BEAUTIFUL ECONOMICS STORY:

A Review of *Grand Pursuit* by Sylvia Nasar

Grand Pursuit: The Story of Economic Genius
by Sylvia Nasar
Simon & Schuster 2011
576 pages

Reviewed by Sherman Folland

I can't help thinking that Ms. Nasar's smile, in the photo on the flyleaf, is mischievous. It's as if she's thinking: "This time I told the economics story my way." In any case her way is richly rewarding. She tells the intellectual discoveries succinctly and spot on correctly. But she has enriched these with a thorough reading of economic history, providing a context for theory in the progress of industry, productivity of the workers, and the reality of poverty. Likewise her knowledge of history and biography helps make economics a story. A pleasant surprise is her familiarity with the novels that entertained and inspired the educated people in those times. This isn't what textbooks on the history of economic thought typically look like, and if you want a book much denser on the theory side you will have to look elsewhere. But *Grand Pursuit* is richly entertaining and often very exciting.

Sylvia Nasar's previous book, *A Beautiful Mind*, on the life of the troubled, genius, game theorist John Nash, was hugely

successful with both the critics and the public. *The Boston Globe* compared it to a “Rembrandt portrait,” *The New York Times* called it a “remarkable look into the arcane world of mathematics and the tragedy of madness,” while *The Washington Post* said it was a “. . . fascinating overview of [a] life and the intellectual history of his times.” A rare honor, Nasar’s book was also reviewed, and positively, by the *Journal of Economic Literature*. The book won the National Book Critics Circle Award for biography. She previously worked as economic correspondent to *The New York Times* and currently serves as John S. and James L. Knight Professor at the Columbia Graduate School of Journalism.

Dickens

The book begins with Charles Dickens, whose London street scenes taught us about the misery of the lower classes, those who suffered the body blow of industrial progress. Country folk streamed into the city bringing the crowding that boosted infectious disease rates. London mortality rates—from disease, smoke, and poverty—grew to be much higher than in the countryside, a gap that lasted for many decades.

The London poor needed charity from individuals and from the government. But the economist, Thomas Malthus, had published a theory of population in the early years of the 19th century that suggested charity would be futile. Malthus observed that the supply of foodstuffs grew slowly, by an arithmetical process, while population grew rapidly, by a geometric process. He reasoned that in prosperous times people would just have more children, and soon once again there would be more mouths to feed than food to feed them. Starvation and death would drive down the population to the mere subsistence level. Essayist Thomas Carlyle anointed economics as “the dismal science.” But the theory was more than dismal, it was fatalistic, claiming to derive the result that it was impossible to improve the lot of mankind.

Malthusianism became widely accepted both by economists

and by the reading public. First David Ricardo assumed it in his theories (1772-1823); then Karl Marx (1818-1883); then even John Stuart Mill (1806-1873). Understandably it offered a platinum excuse for the well-to-do educated classes to avoid the cost of doling out charity. Nasar argues the Dickens wrote *A Christmas Carol* as a rebuttal to this Malthusianism:

By accepting the more hopeful, less fatalistic view, Scrooge refutes the grim Malthusian premise that the “blind and brutal past” is destined to keep repeating itself. (p. 8)

Dickens did not attack Malthus directly. Instead his genius lay in his ability to make tightwads feel really small. Early Scrooge has no saving grace, and he is miserable to boot. The moral message of *A Christmas Carol* hit the English public “like a sledgehammer.” Redemption could be found only by becoming more charitable. Dickens was kind enough to offer this redemption to Scrooge, whose character becomes expansively generous. To paraphrase:

Boy! What’s today?
It’s Christmas, sir.
What a fine boy!
Is the prize turkey still hanging at the Poulterers?
You mean the one as big as me?
I’ll send it to Bob Cratchit Scrooge whispered, rubbing his hands and splitting with a laugh.

Marx

Dickens was Karl Marx’ favorite novelist, and Marx became the world’s foremost champion of the working class, the proletariat. However, Nasar notes correctly that despite Marx’ celebrity in other circles, economists tended to dismiss his economic models. As the top history of thought economist, Agnar Sandmo puts it: “ [later economists] have tended to focus on those parts of Marx’ economics that are especially well suited

for mathematical modeling often showing that they have logical flaws or that their predictions have been wrong” (2011, p. 134).

For instance, Marx, who believed that labor produces everything of value, at one point recognized that capital is also productive, declaring reasonably that it is “embodied labor.” Yet in his theory of surplus value only current labor counts. And he attributed no value whatsoever to the efforts of the people who organized and managed the resources of production. Further, his labor theory of value required the market prices to be proportional to the labor content of the commodity. This proves to be impossible, probably because Marx like many economists at that time didn’t understand that the supply curve alone doesn’t determine market value, but rather, supply and demand together.

The Contrasting Characters of Marshall and Marx

The value of Nasar’s book in this regard lies in the stunning contrast found in the biographies of these two men. Marx, the prospective savior of the proletariat, had little contact with the working man.

Marx never did step outside. He never bothered to learn English well. His world was restricted to a small circle of like-minded émigrés. His contacts with English working class leaders were superficial. He never exposed his ideas to people who could challenge him on equal terms . . . Astonishingly for the best friend of a factory owner and author of some of the most impassioned descriptions of mechanization’s horrors, Marx never visited a single English factory. (p. 41)

Marshall, where he is even known to the public, has the image of a dry neoclassical theoretician, but he was very much alive and was just the opposite of Marx. Born and raised in a poor section of London, he was only by luck able to attend a first class school. On his way to school Marshall stopped to talk

with working men and their families. Later as an academic he deliberately continued the practice, talking with the poor and visiting factories. Marshall expressed his economic optimism: “Why is it necessary to have the poor?” His goal in life was to “make every man a gentleman.”

Marshall’s contribution to economics was immense. His work served as a watershed of what had gone on before, he put supply and demand together, and he developed neoclassical economics, which survives to this day. He provided not only an engine for analysis but also an edifice for later researchers to criticize and to determine how it could be improved.

What had happened with Marshall? Why so optimistic that mankind’s lot could be improved, while Malthus, Ricardo, Marx (the only solution was to destroy capitalism), and Mill were not? The secret probably lies in the fact that the industrial revolution had belatedly brought a rise in the real wage. “The Victorian statistician, Robert Griffen, referred to ‘the undoubted nature of the increase in material prosperity from the mid-1840s through the mid-1870s’ “(p. 40). This was shared by the working class. By the time Marshall wrote in the 1890s, you can be certain that this success was known to him.

Joseph Schumpeter

Even today most undergraduate economics texts offer a static account of markets, as if one would expect the same graph to be repeated in the next period and we start all over again. Economic change is depicted by comparing two static situations, the change agent is often not explained, it just happens. Schumpeter’s writing in the 1930’s brought the essential change agent to life, the entrepreneur, the source of innovations. Schumpeter was generous, you needn’t be Steve Jobs to be called an entrepreneur. You could innovate in your greenhouse store if you brought in a new South American plant, new to your neighborhood. Making a fortune was not required, and you could innovate within an organization as well as by

making something for sale. You don't have to cause turmoil and opposition, yet it is true that innovators often go against the grain.

Schumpeter certainly did, and he seemed to relish it. An excellent self-promoter, he got himself selected as Treasurer of Austria. The interwar years with its heavy reparations followed by the Depression were not good times to be Treasurer of Austria. And his extravagant behavior didn't help, he enjoyed life in the large. When a Viennese newspaper criticized his lavish night life, Schumpeter hired a carriage, got two pretty prostitutes, one on each knee, and rode down the avenue in Vienna. Every econ graduate student knows his famous boast: "I intend to be the world's greatest lover, the world's best horseman, and the world's greatest economist." Later in life he recognized that he had not succeeded but claimed that "two out three isn't bad." His genius was eventually recognized, and Harvard offered him a professorship.

The Women

There is a simple reason we find very few women among the top ranks of economics until the modern day: they were discriminated against, and also, few brilliant women in those days would see themselves as bound for the top rank. Marshall, speaking to a large group of very able women in a Cambridge lecture hall complained of that:

He addressed the women in plain, direct, homely terms as if he was speaking to his sister, urging them to stop 'tating their tating and twirling their thumbs' and counseled them to resist the demands of their families. (p. 62)

When Marshall met Mary Paley, he recognized her exceptional ability. He and a friend persuaded her to take the Tripos exam in the Moral Sciences, promising that they would train her in the subject. Almost like a romantic comedy their being together was interrupted by a long visit to America that

he took, a trip even replete with an attractive “other” woman. But he returned to Mary and learned that she had passed her Tripos. Their marriage I think was not unusual in these times, where a brilliant woman denied a role as a public intellectual has an effect through her husband’s field. One can’t help but also mention John Stuart Mill and Harriet Taylor.

Some decades later Joan Robinson (1903–1983) became the first woman to make a significant contribution to economic theory in her own right. Motivated by a disgust of economists’ claims for the benefits of laissez faire competition, she developed a theory of “imperfect competition” in which competition leads to very high prices. Her disgust burned into a hatred of capitalism, which is ironic because neoclassical theory happily adopted her theory and now versions of it are taught in every micro principles textbook. It is also very sad, because her genius burned itself out this way.

She joined the Communist Party, which made sense for her, and she visited the Soviet Union frequently, which also made sense for her. Oddly though she came back with a dreamy account of Soviet harmony and efficiency and with a thoroughly glossed over account of Soviet history. “Odd” because the madness of Stalin’s ’30s, the Ukrainian purge, the heavy Gulag prison system should have been known to her. By the 1950s

As far as most of the British left was concerned, the wartime romance with the Soviet Union was over. Not for Robinson. (p. 434)

Keynes and Hayek

John Maynard Keynes is considered the greatest economist of the twentieth century, primarily due to his *General Theory*. This broke the economics profession’s obsession with the classical theory of recession, in which the economy returns to a happy equilibrium like clockwork. He described the cure as the monetary and fiscal stimuli, which we still argue about today.

Keynes accepted the Classical claim that the economy would right itself in the long run, but he cautioned not to wait too long to intervene for “in the long run we are all dead.”

Hayek in contrast is not admired among economists for his business cycle theory, so why is he now often mentioned in the same sentence with Keynes? Agnar Sandmo’s new book on *Economics Evolving* hardly mentions Hayek’s theory of cycles. The reason for the resurgence of Hayek’s business cycle theory is probably its appeal to the political right.

In Hayek, a recession is caused by overinvestment during the boom period, itself caused by excessive money creation. The overinvestment is inefficient and the structural misallocation can’t be sustained. The thing to do is to do nothing, stimulus will only preserve the misallocation and may cause inflation. Does that sound familiar? Insert Greenspan for “money creation”, insert “housing” for overinvestment, insert “Chicago School” for “do nothing.”

But this fanciful story might be believed only if we forget about 1) the invention of dynamic hedging; 2) the market deregulation; 3) the creation of credit default swaps; 4) securitization. The devil and the reality is in the details.

Milton Friedman once said “I admire Hayek greatly, but not for his economics.” Hayek, like Friedman, argued that free markets are essential to preserve political freedom, and this is probably the part that Friedman admired. But Hayek is also admired by top economists for something else entirely— his theories of information in a market economy. He explained how prices provide information and how market entrepreneurs create by trial and error the information needed for the health of the economy. His article on knowledge is considered one of the top 100 economic articles of the Twentieth Century. Nasar gives Hayek his due without succumbing to his business cycle theories.

Much of the Twentieth Century portion of the book is in a more journalistic style focusing on Keynes and the interchange of other activist players on the national scene. Keynes’s life is probably well known to many people: his role at the

Treaty of Versailles, his influence at Bretton Woods, his advocacy of government spending during the Depression, even his personal life including his marriage to the dancer Lydia Lopokova (there's a great picture of her). We learn of the exchanges Keynes had with FDR and his advisers, and his public pronouncements. Keynes throughout his life had a very grownup concern for the well-being of other people, not just for their GDP. He opposed the severe reparations at Versailles not just for his fear that it would lead to another war, but because he was concerned that Germans and Austrians were starving. It was important to help the unemployed not just to bring the economy out of recession, but also because being unemployed is very painful and debilitating. Keynes could be sarcastic and funny; he once argued that a better Depression policy, better than other policies like austerity, would be to bury jars full of money in abandoned mines and encourage people to dig them up. The sarcasm is meant to criticize the other policies, while the 'jars of money' idea is actually a perfectly logical if oddball Keynesianism.

My hunch is that most historically minded economists think it amusing that "Keynesianism" is considered leftist *per se*, even socialist by the public today. The man himself was an old fashioned "liberal," meaning he leaned toward the libertarian. Properly understood, he saved capitalism from the increasingly popular Marxist attacks during the Depression years. Of *Das Kapital*, Keynes said it was "an obsolete economic textbook which I know to be not only scientifically erroneous but without interest or application to the modern world" (p. 47).

What's the Bottom Line on Nasar's Book?

OK, so it's not a densely intellectual history of economic ideas. You may have seen a recent review in *The New Republic* by Robert Solow in which he seemed to wish Nasar had written more like Agnar Sandmo. Sandmo is a top economist and a

specialist in the history of economic ideas. Nasar is a journalist instead and tells the fascinating real life story. In parts it is as intriguing and exciting as biography and history of the times as it is of economic and intellectual history.

Her excellence was not lost on other critics. *The New York Times* described her work as “rich, in places dazzling, history,” and *The Washington Post* said it was “a worthy successor to Robert Heilbroner’s *The Worldly Philosophers*, *The Globe and Mail* says it “has a rich narrative laden with wonderful contextual detail.” *Business Week* says that “One suspects that future economic textbooks will warrant some revisions . . . the authors would profit from consulting *Grand Pursuit*.” For me, it’s a great book. I am inspired to revise my course in the history of economic thought.