Center for American Progress

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This January 1935 photo shows a mural depicting phases of the New Deal

The Origins and Evolution of Progressive Economics

Part Seven of the Progressive Tradition Series

Ruy Teixeira and John Halpin March 2011

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With the rise of the contemporary progressive movement and the election of President Barack Obama in 2008, there is extensive public interest in better understanding the origins, values, and intellectual strands of progressivism. Who were the original progressive thinkers and activists? Where did their ideas come from and what motivated their beliefs and actions? What were their main goals for society and government? How did their ideas influence or diverge from alternative social doctrines? How do their ideas and beliefs relate to contemporary progressivism?

The Progressive Tradition Series from the Center for American Progress traces the development of progressivism as a social and political tradition stretching from the late 19th century reform efforts to the current day. The series is designed primarily for educational and leadership development purposes to help students and activists better understand the foundations of progressive thought and its relationship to politics and social movements. Although the Progressive Studies Program has its own views about the relative merit of the various values, ideas, and actors discussed within the progressive tradition, the essays included in the series are descriptive and analytical rather than opinion based.

We envision the essays serving as primers for exploring progressivism and liberalism in more depth through core texts—and in contrast to the conservative intellectual tradition and canon. We hope these papers will promote ongoing discourse about the proper role of the state and individual in society; the relationship between empirical evidence and policymaking; and how progressives today might approach specific issues involving the economy, health care, energy and climate change, education, financial regulation, social and cultural affairs, and international relations and national security.

Part seven of the series examines the rise of progressive economics as an alternative to the laissez-faire orthodoxy of the late 19th century and the challenges to progressive economics that emerged in the 1970s and 1980s.

Introduction

What is progressive economics?

Although multiple schools of economic thought exist within the progressive tradition, there are several core assumptions that broadly define a progressive approach to economics in terms of theory, values, and practice. On the theoretical side, progressive economics is primarily concerned with striking a proper balance between private and public action to ensure greater stability and equitable growth in the economy and better achieve national goals.

The contours of progressive economics emerged in the late 19th century as a pragmatic attempt to deal with the realities of frequent depressions, workplace dangers, low wages, assaults on labor rights, mass unemployment, environmental negligence, public health issues, and political corruption at all levels of government. As with the transformation of philosophy and constitutional theory during this period (see part one, "The Progressive Intellectual Tradition in America," for a discussion of positive and negative freedom), the original progressives charted a new and more realistic path in economics that preserved a market-based society and private enterprise while strengthening democratic control over the economy and employing the positive power of the state to advance human welfare and national prosperity.

In contrast to a free-market approach of minimal state involvement in the economy and little to no social protections promoted by classical economists, and a state-controlled approach of extensive planning and public ownership of the major means of production favored by socialists, progressive economists embraced the concept of a "mixed economy"—essentially private economic freedom coupled with government regulation, social protections, and the maintenance of public goods.

Progressives challenged the laissez-faire argument most associated with Adam Smith and David Ricardo (see timeline on pages 2-5 for a brief description of these and other economists discussed in this report) that markets are self correcting, that wages must remain at subsistence level, and that the state should do very little to intervene in the natural rhythms of the economy or to address problems such as inequality, poor working conditions, or financial crises. At the same time, these progressives rejected a more radical collectivism that essentially replaced the problems of excessive private control with problems of excessive state control.

As a middle way between these economic alternatives, progressives built the modern administrative and social welfare state to help regulate the economy and provide Americans with greater economic security from unemployment, injury, old age, disability, and health problems that frequently left individuals and families desolate and poor. Progressives also championed the rise of labor unions and the not-for-profit sector as effective nongovernmental institutions that could help temper some of the excesses and problems rising from a capitalist economy. (See part two, "The Progressive Tradition in American Politics," for a more detailed listing of progressive economic policy accomplishments.)

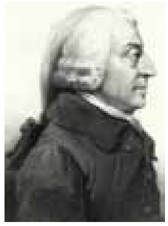
The progressive idea of the mixed economy dominated economic thinking in noncommunist countries for most of the 20th century. As will be discussed in greater detail later in this paper, progressive economics eventually culminated in the so-called Keynesian consensus—named after the progressive economist John Maynard Keynes—that government monetary and fiscal policy was necessary to better manage problems in the macro economy and to promote full employment. With the rise of the conservative movement in the United States during the 1970s and 1980s, and the monetarist and neoclassical ideas of Milton Friedman and others, progressive economics faced serious theoretical and political challenges.

Building upon the basic formulation that "self interest plus competition equals nirvana," in the words of *New Yorker* economic correspondent John Cassidy, contemporary conservative economics is committed to reversing large parts of the progressive regulatory and social welfare tradition and restoring a system of minimal government and maximum private control of the

Brief timeline of economic thought

Classical economics reigns supreme

1776



Adam Smith publishes *An Inquiry into the Nature and Causes of the Wealth of Nations*, the founding text of classical economic thought. This school emphasizes that rational individuals left to their own devices will necessarily make the best decisions for themselves, and in the aggregate, society.

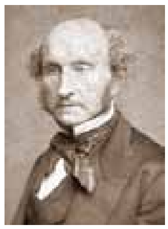
1798

Thomas Malthus publishes the first of six installments of *An Essay on the Principle of Population,* his most famous work. Malthus postulates that low wages are an unfortunate but inevitable consequence of a free-market economy with a growing population. Nonetheless, he argues against state intervention on behalf of the poor, suggesting that such attempts impoverish more than they help.

1817

David Ricardo, in *On the Principles of Economy and Taxation*, describes the theory of comparative advantage, advocating that free trade between countries may be beneficial even when some countries possess absolute advantage relative to others.

1848



John Stuart Mill releases *Principles of Political Economy,* which examines the nature of labor, capital, productivity, and government—components of what we now think of as the field of macroeconomics. Mill discusses the problems of a stagnant economy that necessarily results in poor conditions for laborers, arguing that true economic improvement will result from the betterment of the masses.

1859

John Stuart Mill completes *On Liberty,* in which he warns of the destructive power of the tyranny of the majority as well as the government against the rights and privileges of the individual. The state's interventions should therefore be guided by the "harm principle," which posits that restrictions of individual liberty are only just if the individual actions in question cause harm to others.

economy that favors corporations and the wealthy.[1] With the collapse of the financial and housing markets in 2008, this "utopian economics" approach in turn faces serious theoretical assault as the practical consequences of two decades of deregulation and nonintervention in the economy became apparent to even some of the most libertarian thinkers, including Judge Richard Posner and even former Federal Reserve Chairman Alan Greenspan.

In terms of values, progressive economics often stresses the importance of social cohesion and cooperation over pure self-interest as the basis for a more stable and just economic order. Modern progressive economics, building on environmentalism, also promotes sustainability as a core value underlying our society. Since the 1970s, progressives have warned about the practical and moral costs of the misuse of natural resources, rising pollution, global warming and other environmental disasters, and violations of human rights in pursuit of corporate profits. These alternative economic values have been incorporated into the emerging progressive focus on national indicators that go beyond measurements of aggregate national output. Robert F. Kennedy famously summarized the limits of gross domestic product as a measure of national strength in his 1968 speech at the University of Kansas:

> *We will never find a purpose for our nation nor for our personal satisfaction in the mere search for economic well-being, in endlessly amassing terrestrial goods. We cannot measure the national spirit on the basis of the Dow-Jones, nor can we measure the achievements of our country on the basis of the gross domestic product. Our gross national product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for those who break them. It counts napalm and the cost of a nuclear warhead, and armored cars for police who fight riots in our streets. It counts Whitman's rifle and Speck's knife, and the television programs which glorify violence in order to sell toys to our children.*

Brief timeline of economic thought

Beginnings of progressive economic thought

1885

Richard Ely, then-professor at Johns Hopkins University, creates the American Economic Association. Ely rejects the notion that economic forces are naturally deterministic, instead arguing that markets are manmade and thus can be tailored to specific needs.

1899

Thorstein Veblen publishes *The Theory of the Leisure Class*. Veblen argues that the modern division of labor—which undervalues "menial" work and overvalues the work of top earners—is a remnant of barbaric times. The "leisure class" of overvalued workers drives what Veblen calls "conspicuous consumption," or the consumption of goods that have little intrinsic value but are sought for their visibility and status.

1910

DEPARTMENT OF LABOR

John Commons begins releasing his 10-part series, *Documentary History of American Industrial Society,* which examines the evolution of industrialism in the United States and the way the labor movement has interacted with advances in industry.

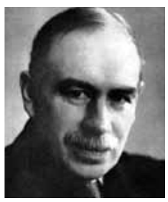
1920

THE WARREN J. SAMUELS PORTRAIT COLLECTION AT DUKE UNIVERSITY

Wesley Mitchell, a student of Richard Ely, creates the National Bureau of Economic Research dedicated to quantitative measurement and analysis of the economy. The bureau is part of early progressive efforts to gain a more nuanced understanding of the workings and cycles of the economy.

The Keynesian revolution

1936



John Maynard Keynes publishes *General Theory of Employment, Interest and Money*, which argues that economies often experience demand shortfalls due to high levels of unemployment and erratic investor confidence. Under these circumstances government needs to fill in demand shortfalls and push the economy back to full-employment-level output.

Although rarely discussed in contemporary politics, the values dimension of economics occupied a great deal of political debate throughout much of the early 20th century. While those committed to the neoclassical tradition often ignored or downplayed the negative social outcomes of self-interested economic behavior, progressives focused public attention on the societal consequences of undue deference to market values. Progressive economics remains concerned with the fundamentals of growth, productivity, and employment. But it also asks broader questions about the overall goals and structure of our economy, among them:

- What is the shared responsibility between individual, businesses, and government to provide for the welfare and security of workers?
- Do we want to live in a society where those who work full time remain on the edge of poverty?
- Should 1 percent of Americans command roughly one-quarter of national income?
- Should corporations be held responsible for their treatment of the environment, their workers, and the communities in which they operate?
- Is a consumption-based economy built on personal debt desirable?
- Do workers need better workplace arrangements and policies that recognize the needs of American families?

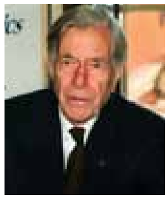
On the practical side, progressive economics starts from the premises that markets fail and that they are not always self-correcting. Progressives understand the importance that markets play in producing wealth, creating jobs, devising new products and services, and in meeting the needs of individuals and consumers. But they also know that there are severe limits to markets. Economic history shows time and again that market economies are highly prone to speculative bubbles, monopolistic behavior, mistreatment of workers, and corruption if they are not closely monitored. Many private businesses operating under self-interested values are notorious for creating negative "externalities," such as air and water pollution, overuse of natural resources, and systemic risk in their pursuit of profits.

Timeline of economic thought

1948

Paul Samuelson releases *Economics*, one of the most widely read and well-regarded economics textbooks in the history of the field. The book reintroduces the concept of the "paradox of thrift," attributed to Keynes, which states that if individuals attempt to save during recessions, demand falls such that overall savings fall more than they would have if the initial propensity to save had persisted.

1958



AP PHOTO/GIULIO BROGLIO

John Galbraith publishes *Affluent Society*, which becomes his most famous work. Galbraith argues that the United States needs to do more to invest in infrastructure and public works and should work to remedy growing income disparities.

Conservative backlash

1962

EN WIKIPEDIA AND FREE TO CHOOSE MEDIA

Milton Friedman publishes *Capitalism and Freedom*, which asserts the value of free markets absent government intervention or regulation. Friedman argued that government spending interferes with economic growth, rather than promotes it.

1970

UNIVERSITY OF CHICAGO

Eugene Fama publishes the article "Efficient Capital Markets: A Review of Theory and Empirical Work," outlining the efficient market hypothesis. This hypothesis postulates that investors are perfectly rational and fully-informed and that financial assets are therefore always priced correctly by the market.

1972

UNIVERSITY OF CHICAGO

Robert Lucas releases "Expectations and the Neutrality of Money," which develops the theory of rational expectations. Lucas articulated the theory that government efforts to fine-tune the economy would not work due to individuals' expectations of the result, work for which he would later win the Nobel Prize.

Similarly, the private sector has little incentive to invest in key collective goods such as schools, roads, bridges, and public transportation; research and development in new areas; and public safety measures.[2] The neoclassical tradition of conservative economics dismisses these failures as unimportant, arguing that markets are in fact self-correcting. Therefore, there is no need for solutions to these problems and none are put forward.

In contrast, progressives believe that government must step in to correct the failures of markets, restore efficiency, maintain full employment, and promote public needs and equity in society. It is no accident of history then that progressives devised nearly all of the laws and institutions necessary to correct the shortcomings of the market, and that conservatives opposed them almost uniformly.

Case in point: Responding to the currency problems of the late 19th century, progressives devised the Federal Reserve System to ensure a steady and stable money supply and to check inflation and excessive risk in the economy. Progressives also employed antitrust measures to stop businesses from colluding to set prices and production patterns and undermine competition, and created a variety of fees, levies, and other legal actions on businesses that extract the nation's natural resources or create environmental hazards and pollution.

Similarly, progressives at the federal, state, and local levels promoted important public investments—financed through progressive taxation and government borrowing—to help:

- Maintain a strong military and public safety measures
- Support public schools and college education
- Build and maintain highways, airports, and railways
- Provide health care and retirement security for Americans
- Invest in new energy research and other forms of innovation
- Protect the most vulnerable members of society

Brief timeline of economic thought

1980

Milton Friedman and his wife, Rose, release *Free to Choose*, a book accompanied by a 10-part PBS television series that strongly advocates individual choice criticizing most government actions as unnecessary and harmful.

Today's new progressive push

2006


KEYSTONE/MARTIN RUETSCHI

Joseph Stiglitz publishes *Making Globalization Work*. The text examines the pernicious effects of globalization and ways in which globalization can be reformulated to more equitably benefit trading countries. Stiglitz is particularly critical of the effect of liberalizing developing countries, a process advocated tirelessly by neoclassical economists.

2007


AP PHOTO/MEL EVANS

Paul Krugman releases *The Conscience of a Liberal*, which argues that government policies were instrumental in reducing poverty and inequality between the 1930s and the 1970s. Krugman further argues that since the 1970s, inequality increased because neoclassical economic theory regained dominance, and that government should focus more on social welfare programs as a means of alleviating such disparities.

2009


AP PHOTO/NOAH BERGER


AP PHOTO/DOUGLAS HEALEY

George Akerlof and Robert Shiller release *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*, the title of which is derived from Keynes's theory that "animal spirits," or investor emotions, tend to drive markets. Drawing from Keynes's analysis, Akerlof and Shiller stress the need for decisive government intervention to stabilize markets and restore credit in times of low investor confidence.

This legacy of progressive economics paved the way for America to become one of the most powerful economies in the world and, after World War II, helped to create the largest and most secure middle class. Despite the claims of conservative economists, a proper balance between private and public actions and investments, regulation, and publicly provided social protections were essential to American success in the 20th century.

The remainder of this paper will explore in more detail the development of progressive economic theory, values, and practical solutions to societal needs. As in the other papers in the progressive tradition series, our goal is to make the often-complex ideas and history of economics accessible to progressive activists and others interested in the topic.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

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