

## INTERVIEW

# Bruce Caldwell

**Editor's Note:** *This is an abbreviated version of RF's conversation with Bruce Caldwell. For the full interview, go to our Web site: [www.richmondfed.org/publications](http://www.richmondfed.org/publications)*

Economics is one of the oldest of the social sciences. Many date its founding to the publication of Adam Smith's *Wealth of Nations* in 1776. But there were people studying the social phenomena we now call economics well before that, including, for instance, the Spanish scholastics of the 1500s.

It used to be common for Ph.D. programs in economics to require students to take coursework in the history of economic thought, to learn not only what their predecessors wrote but to also try to apply those insights to contemporary problems. Some of those students went on to write their dissertations and to develop fertile research agendas in the field.

While history of economic thought has not died out within the economics profession, its prominence has diminished. Many economics departments have perhaps one historian of thought, doing work that many of his colleagues may find esoteric. This is not true at Duke University, where history of thought has long been a vital field and remains so today.

Bruce Caldwell directs Duke's Center for the History of Political Economy, the aim of which is to support existing researchers, help develop younger scholars, and generally advance the understanding and study of the field. Caldwell joined the Duke faculty in 2008 after teaching at the University of North Carolina at Greensboro. His own areas of expertise are economic methodology and the work of Nobel Prize winner F. A. Hayek. Aaron Steelman interviewed Caldwell in his office at Duke in August 2010.

**RF:** Duke has long been a prominent place for research in the history of economic thought. How did this come to be the case? And how do you see the Center for the History of Political Economy, which you direct, as fitting into and extending that tradition?

**Caldwell:** Joseph Spengler was probably the most important historian of thought in the department in the early days, and he brought other faculty members and students who were interested in the field to Duke. Craufurd Goodwin, Neil De Marchi, and Roy Weintraub later joined the faculty. The major journal in the field, *History of Political Economy*, was founded at Duke in the late 1960s and has been published here since then. In the 1980s, Weintraub was instrumental in starting the "Economists' Papers Project," which is a collection of important personal and professional papers by economists. Among the papers included in the collection are



those of nine Nobel Prize winners, the most recent of which are Paul Samuelson's papers. It also includes the papers of the American Economic Association and the History of Economics Society. The collection brings people to campus who are doing archival work.

The Center for the History of Political Economy is actually relatively new. I came to Duke in 2008 to direct it. It was funded by a grant from a North Carolina foundation called the Pope Foundation. We have workshops where outside speakers come in, and we have weekly lunches where people who are either residents of the Center or faculty members present and get feedback on early stages of their research. We host an annual conference that is co-sponsored by the *History of Political Economy*, and the papers presented are published in a hard-cover edition of the journal. We have other, smaller conferences and special events as well. The most important initiative that the Center has launched is our visiting fellows program. We bring in quite a few junior people, often those who are working on or have just completed their dissertations, and they will work on publishing papers related to their graduate school research, as well as on increasing their knowledge of various parts of the field. We also bring in senior scholars who often work on major research projects. It's been very exciting. We have a critical mass of people coming in each year, in addition to our existing faculty members who are interested in the history of thought, and it's just a great intellectual environment.

**RF: Do you have many graduate students at Duke who are writing their dissertations on topics related to the history of economic thought?**

**Caldwell:** We haven't had very many recently. That's one of the things we are trying to do, to renew interest in doing history of economics as a field. So, to that end, we are encouraging people to come work in this area, and we are able to provide financial support for them. Related to this effort are our summer programs. This past summer we had 24 people from all over the country spend three weeks with us, and it was like a boot camp in the history of economics. The program was aimed mainly at undergraduate teachers of the history of economics and it was quite successful. The Summer Institute was sponsored by the National Endowment for the Humanities. It's unusual for them to fund economics programs, but given our mission to try to revitalize the history of the study of ideas, it was something that they were willing to fund.

We are thinking of other summer programming that, for example, would help graduate students turn a literature review article into something that could be published. This is a way of getting people to understand that the history of economics doesn't mean that you're just going back in some antiquarian way and looking at Adam Smith — although there's quite a lot to be gained from that — but also that it can be a vital way to better understand current questions in economics.

**RF: Many economists seem to think that the discipline has consistently made strides for the better, rather than, on occasion, experiencing missteps that have led it in stagnant or even counterproductive directions. What do you make of that claim? If there have been periods of retrogression in your opinion, what are the most prominent examples in this century?**

**Caldwell:** I am generally known as a Hayek scholar, but the first area that I was interested in was economic methodology and my first book was called *Beyond Positivism: Economic Methodology in the Twentieth Century*. In that book, I argued that most economists embrace a certain vision of science that explicitly embraces positivist thinking. In this vision of science, it's a cumulatively progressive enterprise and, indeed, if you feel that the work of the last five years represents the best truth that we have and that the latest working papers are even better, then history becomes less important; it becomes just something of a hobby. Now if you don't share that positivist vision, of course, then there's indeed quite often important lessons to learn from history, various things that history can teach which simply poring over the latest working papers is not going to give you — a certain appreciation for larger themes, the fact that everything wasn't discovered five years ago, and that the present is not the epitome of all knowledge.

Phil Mirowski has written about the physics envy of the

economics profession in the 19th century, and I think a continuation of that took place in the 20th century. The perception was that the way to be truly scientific was to know the latest modeling and econometric techniques, pick a field, and then apply them. That vision of science has much less of a role for history. I think the move to that vision is obvious, and it's one I personally think is wrong and that we're trying to reverse.

**RF: There have been many great neoclassical economists who also have been great historians of thought: Viner, Stigler, Hutchison, to name a few. But now it seems that history of thought is predominantly done by people who are broadly Austrian, post-Keynesian, or neo-Marxist in orientation. Why is this field relatively popular with heterodox economists and relatively unpopular with mainstream economists, at least in the United States?**

**Caldwell:** I would like to point out that there are vast numbers of historians of economics who are not heterodox economists. Just thinking of my colleagues who do history of economics in this department — not one of the four would consider himself heterodox. And few of the most prominent people — I am thinking of people like Mark Blaug, Steve Medema, Philippe Fontaine, Mary Morgan, Roger Backhouse — would do so either.

Still, there is some truth to the premise of your question. A lot of critics of neoclassical economics are, in fact, interested in history of thought. The most obvious reason why, perhaps, is that if you are, say, an Austrian School economist, you think that the way economists are practicing economics now is fundamentally wrong. So you are naturally inclined to look at history and find out where things took an incorrect turn. It may also be true that the critics of neoclassical economics for one reason or another often are interested in social science more broadly, and this leads them to areas of inquiry that are further afield than what many people today consider economics proper.

**RF: What do you think history of thought has to teach us when considering contemporary policy issues such as the financial crisis of 2007-2009?**

**Caldwell:** I think what the study of the history of economics does is gives you some sense of the long haul, the understanding that great minds have thought about similar issues. The issues are always specific to a certain point in time and part of what a historian does is to provide the context for that. But it's also true that certain ideas keep recurring. There is, indeed, old wine in new bottles — that is the analogy that's often used and I think the grand themes don't go away.

Consider the question: Is a business cycle inevitable? If you were a recently trained economist who had come through the Great Moderation and had not studied history

of economics your answer to that question might have been: “No, of course not, it’s not inevitable. Look at history.” (By which you would mean, the immediate past.) That’s a tragedy because, I would say, that through the course of the last 150 years, most economists would have said: “Yes, indeed, it is inevitable.” And most of those economists, most of the time, would have said that such cycles have to do with money. So, yes, every time is a little different but there are similarities. That perspective gives one a certain amount of humility, which I think is ultimately good, particularly when you are advising on policies that have profound effects on people.

**RF: So do you think macroeconomics has gone off the rails?**

**Caldwell:** I’m not a macroeconomist and I am loathe to offer opinions about a field that I’m not a specialist in. But it certainly does seem that macroeconomists didn’t contribute terribly much toward anticipating any kind of crisis and haven’t offered a very coherent explanation or response to it. And it doesn’t seem that the models currently on offer have been able to address some pretty important and obvious questions. Now, academic economists who are building models are not professional forecasters and shouldn’t be held entirely accountable for that. But the response of the profession to this crisis has been pretty weak, I think, and has made economists appear as if they’re just not engaged with the actual world. I think that’s quite difficult for people who are not economists to understand and has been damaging to the profession.

**RF: You mentioned that you are often described as a Hayek scholar. How did you become interested in Hayek?**

**Caldwell:** One of the findings of my book *Beyond Positivism* was that economists, in talking about methodological issues and about their field as a science, were borrowing from the language of positivism. However, within the philosophy of science, positivism was basically a dead letter. So what I came away with was that economists were borrowing from a defunct philosophy of science. So at that point I started to become interested in some of these alternative groups, simply because they were often quite explicit about their methodological concerns with neoclassical economics. And, ultimately, I got interested in Hayek because I thought that his writings about the limits of social science and our ability to predict and control social processes provided important insights. So it was via my earlier interest in methodology that I first got interested in Hayek. Now, having said that, I find Hayek to be a fascinating figure for many, many reasons.

**RF: During the 1930s, Keynes and Hayek were arguably the two most prominent economists in the world. While Keynes’ reputation ascended and the number of**

**“Keynesians” grew rapidly, Hayek’s reputation suffered and the Austrian School largely fell out of favor until a revival of interest in the 1970s. What do you think accounts for the radical changes in stature and influence of these two schools of thought?**

**Caldwell:** When Hayek moved to the London School of Economics, he started with a review of Keynes’ 1930 book *A Treatise on Money*. That was a devastating review, and they had a duel of sorts in the academic journals, with neither gaining a clear upper hand in the profession. But that changed when Keynes published the *General Theory* in 1936. Hayek labored long and hard and finally published *A Pure Theory of Capital* in response, which did not have anywhere near the kind of impact. Keynesian ideas subsequently dominated economics right through the next 40 years.

Certainly the broad sweep of events is going to be crucial to explaining something like Keynes’ prominence. You’re in the Great Depression; Keynes was talking about policies that seem custom-made for dealing with a big problem; Hayek’s basic model says that, well, the problem was that interest rates were too low for too long and this altered the structure of production in such a way that was unsustainable, and basically the crisis part is the economy trying to return to some sort of equilibrium.

**RF: Hayek also said that you need to let that crisis run its course and that activist fiscal or monetary policy is a mistake, correct?**

**Caldwell:** Essentially, yes. He later said in some places that if you get into what he called a secondary depression, you can use stimulative policy. So if things keep spiraling downward, you might respond there. But Hayek actually struggled with monetary issues throughout his life, and if you look at his writings from the 1930s through the 1970s, you’ll come up with five or six different takes on it. People sometimes ask me, What do you think about Hayek on monetary policy? My response is: Which Hayek?

So, in the same way that the broader forces brought Keynesianism to a high point, the stagflation of the 1970s really undermined the belief that you could fine-tune the economy. That helped to undermine the Keynesian consensus and introduce the more recent period, one where there’s more support for markets. I think that these things go back and forth, and you can see parallels in other time periods as well.

**RF: As you noted, the stagflation of the 1970s led many people to question the Keynesian consensus. Somewhat ironically, by this point it seems that Hayek basically had stopped doing economics. How do you account for this?**

**Caldwell:** This is what I focus on in my book *Hayek’s Challenge* because, indeed, he’s jumping from field to field. What’s driving that? Where’s it coming from? In a nutshell, the story I would tell is that in the mid-1930s he started a

## Bruce Caldwell

### ► Present Position

Research Professor of Economics and Director of the Center for the History of Political Economy, Duke University

### ► Previous Faculty Appointment

University of North Carolina at Greensboro, 1978-2008

### ► Education

A.B. (1974), College of William & Mary; Ph.D. (1979), University of North Carolina at Chapel Hill

### ► Selected Publications

Author of *Hayek's Challenge: An Intellectual Biography of F. A. Hayek* and *Beyond Positivism: Economic Methodology in the Twentieth Century* as well as numerous articles in such journals as the *History of Political Economy*, *Journal of the History of Economic Thought*, and *Journal of Economic Methodology*

project that was never finished, called the “Abuse of Reason” project. It was designed to show why we were going down the wrong path. What he had in mind was the belief that planners could engineer society in just the way a physical engineer engineers a bridge. He called that belief “scientism,” because he thought it was not truly scientific but it had all the trappings of science.

If you take a look at the 1930s, capitalism had apparently collapsed and the alternative systems that were on offer — fascism and communism — were unacceptable to the vast majority of people. Hayek is in Great Britain at this time, and the intelligentsia generally thought that socialism was the way forward. He was trying to oppose that, so this Abuse of Reason project had methodological components and ultimately resulted in *The Road to Serfdom*, by far his most famous book.

One of the objections to *The Road to Serfdom*, by both Keynes and Alvin Hansen, was: Well, you’ve told us what’s wrong with socialism and we can understand that. But what would you put in its place? What do *you* want?” Hayek wanted a liberalism for the 20th century, like the classical liberalism that had been dominant in Great Britain in the 19th century. And he founded the Mont Pèlerin Society in 1947 with that aim in mind. Also, in his subsequent work in political philosophy, particularly *The Constitution of Liberty* and then later the three-volume *Law, Legislation, and Liberty*, he hoped to sketch a vision of liberalism for the 20th century.

Why did he turn back to economics? Well, think about what happened in the 1970s: Again, it’s stagflation. That’s why he started doing economics again. He had argued in *The Constitution of Liberty* that a full employment policy was dangerous — that it was likely to lead to higher rates of inflation as policymakers try to achieve their employment mandate. He was always worried about inflation. This was a guy who lived through the Austrian variant of the hyperinflation after World War I, and during the 1970s he saw inflation as an increasingly pressing problem.

**RF: How would you respond to the criticism that history of economic thought often boils down to hagiography?**

**Caldwell:** There certainly is hagiography out there. But as a historian of economics, when other historians and I see that kind of work, that’s what we call it. And it’s not impressive. Sometimes you can get something useful from it if there are some facts mixed in with the adulation, but frankly in my case, my fascination with Hayek has to do with the range of topics that he dealt with. And I found the connections that

he was making across these various fields to be fascinating. I don’t agree with all the stuff he said, but I was interested in why economics turned out the way it did in the 20th century. Hayek has been a wonderful vehicle for studying that. He was someone who was always on the outer edge of the profession, but always interacting with it and the most important people in the discipline. What a fascinating figure. There are lots of fascinating figures in the history of economics, but he kind of stuck with me.

**RF: Why do you think that so many intellectuals, including economists, were drawn to socialism in the early part of the 20th century?**

**Caldwell:** As part of editing Hayek’s collected works I have gone in to look at the footnotes of those books to see the arguments he was responding to — and that allows you to almost enter the mindset of the 1930s. Almost all of the academics — not just social scientists but natural scientists as well — wanted science to be planned. They thought that the pursuit of profits was robbing science of funding that could be used to create a better society. This type of sentiment is true of artists and public intellectuals also. They’re saying, look, socialism is the way ahead and capitalism is dead. I mean, in the middle of the Great Depression, that was an easy argument to buy. People like Karl Mannheim, one of the founding fathers of sociology, were saying: It’s not a choice of whether we want to have planning or not. It’s whether we have good planning or bad planning. If we embrace good planning, we can do a better job. If not, it will be the sort that they have in the Soviet Union and we ought to avoid that. So it was a time period that was quite different from ours.

**RF: Do you think economists should spend more time explaining basic economic principles?**

**Caldwell:** I think one way to answer that is to explain my own experience. The class that I most enjoy teaching is introductory micro. I think the amount of insights that you get in the space of one semester, in terms of understanding how the world works and the right questions to ask, is incredible. You can understand a newspaper, you can understand the evening news — and you can critique the evening news if you’ve done well in the course. So yes, I think the value added of introductory courses is enormous. And I think the topics covered really get people’s attention as long as they have a good instructor. **RF**