

*The state and
economic knowledge*

The American and British experiences

Edited by
MARY O. FURNER and BARRY SUPPLE

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Ideas, institutions, and state in the United States and Britain: an introduction

MARY O. FURNER and BARRY SUPPLE

This book is about the relation between political institutions, economic change, and economic knowledge. In one sense, therefore, it is part of the recent renewal of interest among historians and sociologists in the position, structure, and role of the state.¹ More specifically, we are concerned

As editors, we express our warm thanks to everyone who participated in the conference that gave rise to this volume. More particularly, we are aware of our great debt to Michael J. Lacey for his organizational and intellectual contributions. Participants who presented papers were exemplary in meeting deadlines and (even more significant) in tolerating our editorial advice. We would also like to emphasize our debt to the various commentators, especially Donald Winch, whose introductory paper at the conference and subsequent comments on this chapter were most helpful, and to Robert Cuff and Hugh Hecló, who were responsible at the end of the conference for summary comments highlighting what they observed as important themes, and whose overviews of the subject matter were masterpieces of systematic analysis and academic tact. We have drawn on their comments extensively—and not always with direct attribution. Finally, the conference greatly benefited from a keynote address by Janet Norwood (commissioner, U.S. Bureau of Labor Statistics), whose remarks provided rare and valuable firsthand insight into the operation and problems of a government agency concerned with the accumulation of economic knowledge.

¹See Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in Peter B. Evans, Dietrich Rueschmeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge, Eng.: Cambridge University Press, 1985); Theda Skocpol, "Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal," *Politics and Society* 10 (1980): 155–201; Theda Skocpol and Kenneth Finegold, "State Capacity and Economic Intervention in the Early New Deal," *Political Science Quarterly* 97 (1982): 255–78; Thomas K. McCraw, "Regulation in America: A Review Article," *Business History Review* 49 (1975): 159–83; Thomas K. McCraw, ed., *Regulation in Perspective: Historical Essays* (Cambridge, Mass.: Harvard University Press, 1981); William E. Nelson, *The Roots of American Bureaucracy, 1830–1900* (Cambridge, Mass.: Harvard University Press, 1982); William R. Brock, *Investigation and Responsibility: Public Responsibility in the United States, 1865–1900* (Cambridge, Eng.: Cambridge University Press, 1984); Louis Galambos, ed., *The New American State: Bureaucracies and Policies Since World War II* (Baltimore: Johns Hopkins University Press, 1987). For a

with the relation between the rise of the modern state, with special reference to the institutions responsible for the formulation of public economic policy, and the generation and uses of economic knowledge.²

THE PROBLEM

In an economic system that is sensitive to political decisions regarding such matters as interest rates, taxes, trade rules, and investment policies, it is not difficult to recognize that the state must have a large interest in economic knowledge—in the practical perception of facts and relationships, in the discovery and deployment of data concerning the operation of the economy and economically based social relations, and in the articulation of systematic theories that may bear on the state's policies or influence its critics. Yet relatively little is known about the relation between the state and economic knowledge over time.

Frequently, the scholarly literature has portrayed governments as passive consumers of whatever ideas economists in the private sector and professions have offered. As a result, the infiltration into government of externally generated economic ideas and the pace and processes that characterize the state's acceptance and implementation of them have been studied fairly extensively. There is a sizable literature, for example, on the "influence of" Benthamite and Keynesian theories. In contrast, the state's own role in the growth of economic knowledge has only recently begun to receive systematic recognition. Although the contributors to this volume deal with the state as both consumer and producer of knowledge, this collection's most distinctive feature is perhaps the assessments it provides of the multidimensional influence of the state and policy formation on the substance and structure of economic knowledge. We hope that this new emphasis has been achieved without falling into a crude instrumentalism in explaining the links between policies and theories, and also without denying the possibility of a significant degree of autonomy in the evolution of ideas.

recent discussion of the varying significance of the political realm, see Charles Maier, ed., *The Changing Boundaries of the Political: Essays on the Evolving Balance Between the State and Society, Public and Private in Europe* (Cambridge, Eng.: Cambridge University Press, 1987).

²This specific focus falls within the more general theme of the connection between modern states and the entire range of knowledge, a topic treated perceptively by Gianfranco Poggi, "The Modern State and the Idea of Progress," in Gabriel Almond, ed., *Progress and Its Discontents* (Berkeley, Calif.: University of California Press, 1982), 337–60.

The state's unavoidable concern with economic knowledge derives from the fact that governments in modern societies have been obliged to come to terms with a number of related developments: violent fluctuations in the performance of national and international economies, structural changes and pressures from interest groups, the sharpened focus of class structures in the nineteenth century and the intermittent pressure of class conflicts, and the emergence of new organizational forms, such as large-scale business corporations and mass-membership trade unions. In this process, governments have had to draw on or generate basic information about economic conditions. For a general orientation to these conditions, they have relied on systematic theory already existing or have encouraged its development within or outside the state. Governments have also been forced to take account of and perhaps attempt to neutralize or modify conventional wisdom, to the extent that widely held beliefs about the workings of the economy have served as catalysts or impediments to policy decisions. More than this, the gathering of information and the analysis of principles and policies have led to the creation of state institutions—statistical agencies, registration offices, committees of inquiry, and permanent departments devoted to monitoring and regulating discrete aspects of economic activity, such as labor or trade—that have themselves reshaped the nature and capacities of government. This quest for economic knowledge to be used for public purposes figures as one of the important building blocks of the modern state.

The dependence of government on economic knowledge expanded with the emergence of the modern industrial state. Perhaps the most important development in this connection has been the assumption by the modern state of ultimate responsibility for the economic well-being of its citizens and for the country's competitive position in the international economy. Throughout modern history, capitalist societies have relied heavily on private initiatives, accumulation, and investment to stimulate economic growth; yet for two centuries, and with increasing intensity, the public sector has acted, often with the approval of other interest groups, but sometimes over their opposition, to facilitate and coordinate private activity, and to deal with serious problems and frictions in the market economy.

The expectation of some public oversight and coordination has been a constant in industrial states. Even during the middle third of the nineteenth century, when *laissez-faire* was recognized as the dominant ideology in Britain, such national economic goals as the provision of an ade-

quate food supply for a rapidly growing population, the removal of obstacles to labor mobility, and the strengthening of the country's international trading position were in part addressed by the adoption of *public* policies, including free trade, a sound monetary system, and a reformed Poor Law. In the United States in the nineteenth century, to take another set of examples, the pursuit of economic development and the response to interest-group pressures involved national and state governments in an array of positive measures, such as a liberal land policy, public investment in the transportation infrastructure, and the manipulation of tariffs and credit. And in each case, whether for inspiration or justification, public officials frequently made explicit use of economic knowledge (in one of its various forms), and helped to shape it.

Given that states were active in these ways when societies were in the relatively early stages of modern economic development, it is hardly surprising that the role of government became even more important as capitalist development under a regime of competition brought acute economic and social dislocation. In part for this reason, the chapters in this book are primarily, though not exclusively, devoted to the experience of the past hundred years. They are also confined to the experience of the United States and Britain. Such a choice provides an opportunity to compare two industrial societies with many common features, but at the same time to learn from a contrast of cultures and institutions. Britain and the United States developed industrially at different times and in different ways; when, in the 1880s, Britain began to experience the first symptoms of relative decline, or at least maturity, and the associated intensification of competition, America—by then a rapidly industrializing society—was, in effect, part of the problem, with consequences addressed by Barry Supple in Chapter 10 of this volume. Later, in the 1930s and 1940s, as Barber and Collins show in Chapters 4 and 5, the American state and American economists were compelled to consider the problems of the United States's own apparent maturity. Concurrently, between roughly the 1920s and 1950s, British economic policymakers faced a new supply of stubborn crises and dislocations that challenged existing strategies and incited conflict between competing paradigms within and outside government, as described by Clarke, Peden, and Supple in Chapters 6, 7, and 10.³

³“Maturity” can, of course, mean either of two distinct conditions: a flowering or development of a system and its institutions (such as American industrial maturity in the 1890s) and a condition of actual or threatened decadence or stagnation (as in the United States in the 1930s and perhaps the 1970s).

The ways in which the two societies responded to these experiences and their parallel patterns in the evolution of economic knowledge were, of course, shaped by the societies themselves, as well as by the problems they faced. Thus, many of the differences in the relations between the state and knowledge in the United States and Britain stemmed from differences in their constitutional and political structures and cultures. Federalism, the presidential system, and the very organization of political institutions and debate in the United States made for more diversity and less continuity in policy discussions and in the elaboration of certain kinds of economic knowledge. As a result, attitudes to industrial structures and competition, trade and labor policy, and even the perceived role of the market varied markedly between the two countries. Obviously, some of these differences also derived from the nature of the two economies: Trade policy, for example, is not simply the product of interest groups and political structures, but is based in large part on a country's position in and dependence on the international economy. Nevertheless, the broader differences in institutions and outlook had a vital role to play—not simply in the articulation of political economy and public policies, but also in the degree of accessibility of state institutions to new ideas, the potential for diversity within official opinion, and the extent to which state agencies could act as arenas for economic investigation and debate and as devices for effective management. (For a fuller discussion of the role of institutions, see the final section of this chapter.)

Much can be learned, therefore, from the contrasts between the United States and Britain. But much, too, can be learned from their similarities, for the two industrial societies have clearly confronted a common range of practical problems and have inherited what, for these purposes, may be considered a common body of political and economic theory. Despite their different histories, the United States and Britain also share a number of important institutional characteristics—not the least of which is the relative permeability of the boundary between the public and private spheres, as compared with more statist forms and traditions in some continental European societies. This greater permeability has allowed the American and British states both to devolve responsibilities more easily and to be relatively receptive to policy initiatives that reflect the perceived needs of particular interests—which may be self-consciously organized into pressure groups, but which may also be more informal or less politicized associations.

The lack of a sharp and enduring distinction between public and pri-

vate in these two societies has implications that merit careful consideration. Some students of the subject interpret it as a vulnerability of the state to control by private groups, a weakness in “governing institutions” when confronted with vested interests—particularly capitalist vested interests. From this perspective, the state escapes “hegemony” only when the economic system is in crisis, and the threat of civil disorder overrides the reluctance of officials to oppose the wishes of powerful business supporters.

No serious student would deny that economic (and social) policy in both countries has very often been greatly influenced, and sometimes even determined, by the needs and appetites of particular groupings in civil society. Yet it is surely as important to recognize the limits to private control over public action as it is to understand the historical boundaries of state interference. For example, it is hardly surprising that governments that in some sense arise from society at large (and not, by contrast, from a hereditary or self-perpetuating governing class) should be disinclined to act against the interest of any powerful social group whose constructive endeavors are judged to be essential to stability and growth. Since the Enlightenment at least, states have been regarded as servants rather than masters, in the sense that they have been expected to govern rationally, in the public interest, and they have often been called to account when their actions seem irresponsibly to favor a privileged group. In both the United States and Britain, although development has been encouraged by state policies, the state has been unwilling to put the demands of any particular interest consistently first, given the necessity to consider each issue in terms of the total situation. And for the same reason even capitalists as a class have not always had their way. They have benefited, to be sure, from state assistance in repressing or diverting protest movements, and in circumscribing the role of labor unions. But the states under consideration here have also, in their different ways, and often over capitalist protest, backed far-reaching welfare programs, and more generally, capitalists have had cause for complaint against extensive interference with market forces. The state has also been unwilling to put specifically economic interests consistently ahead of other considerations, including highly respected cultural values. In the United States, for example, a reverence for competition and an animus toward monopoly were sufficient to override considerations of mere efficiency in the development of antitrust policy. An awareness of contingency and contextuality in all these forms suggests caution in assessing the role of the state in policy and “reform.” Clearly

the state's unwillingness to override capitalist interests in these countries has operated within a framework of culturally embedded commitments to liberal values and institutions, in which the necessity for private accumulation and investment was always recognized, even when public ownership in specific industries and public oversight of economic performance were considered appropriate and necessary. Yet the proof of the state's subservience (or, in stricter methodological parlance, of the claim that the state generally operates as a *dependent* variable in policy formation) must rest on something other than government support for measures demonstrably necessary to promote the *legitimate* interests of private groups.

One approach to this problem of the state's relationship to private interests has been to stress the independence, or autonomy, of the state—even in nonstatist societies such as those considered here. As Patricia Thane pointed out at our conference, there was a powerful étatist tradition in nineteenth-century Britain, whose "leaders sought and to a high degree created a strong, flexible state," and were therefore able to fight successful wars against more bureaucratized nations and establish and administer a huge empire. Politicians and civil servants were part of a broader culture that generated ideas and information, yet were skeptical in their approach to new ideas and data, and were positive and purposeful in deciding what sorts of knowledge to use and when it was appropriate to use them. Politicians ultimately "called the tune," guided by independently selected political ideas, social priorities, and institutional constraints. To this extent, economic policy can be said, in the last resort, to have been determined by the governing institutions.

An alternative to viewing the state as either subordinate or autonomous—and perhaps in the longer term a better analytical framework—is an approach that recognizes powerful bonds of interaction and interdependence between a variety of political institutions and the more self-conscious and better organized groups in civil society, with the state often containing even within itself conflicting currents of opinion, and speaking with different voices to various traditions and constituencies. In the American case, for example, political democracy has permitted a variety of "hegemonic" movements, and the state has been as much exposed to expectations from republican, antimonopolist, populist, and democratic, as from purely capitalist quarters. As Robert Cuff suggests in a companion volume to this one, for example, the American state in World War I was open to and indeed dependent on the managerial skills and policy initiatives of corporate executives who headed the emergency

agencies that managed mobilization; but during the New Deal, agencies with an anticorporate animus developed their own claims to managerial competence and asserted their right to participate in managing World War II mobilization.⁴ To take another example of these conflicting currents within the state: As Brownlee reminds us in Chapter 13, the Treasury under McAdoo endorsed and advanced the long-term goals of antimonopolists who hoped to achieve a more equitable society through redistributive tax policies, only to lose out in the Mellon years to groups supporting taxation theories and policies that stressed accumulation and investment rather than redistribution.

This capacity of the democratic state to provide an arena for contesting views is a powerful stimulus to the development of a knowledge base adequate for making and defending policy decisions. The traditions and institutions of representative government enable, and indeed compel, public officials to define a civic purpose larger than the ambitions of any particular interest. In sum, both hegemony and autonomy theories encompass altogether too monolithic a view of the state in the context of either the American or the British historical setting.⁵

In these societies, policy initiatives have come from both public and private sources, in a multifaceted structure of parallel investigations that allows both collaboration and confrontation. Of course, various private groups are unequal in terms of their resources or access to authority. Yet, while a constant flow of “interested” information has been available, so has a supply of somewhat more “disinterested” data and theory, including a good deal of that proffered by professional economists, reflecting theoretical developments somewhat removed from policy considerations. The advantaged position of the state with respect to information gathering has allowed various state agencies—in America, often working at cross-purposes with one another, and even in Britain, usually reflecting more than a single official view—to seek their own data. Occasionally, as Barber shows in Chapter 4, when existing theory has failed to cope with unforeseen circumstances, state-based economists have progressed more rapidly than academic economists in developing new theories to deal with

⁴Robert Cuff, “War Mobilization, Social Teaming, and State Building: 1917–1941,” in Michael Lacey and Mary O. Furner, eds., *The State and Social Investigation in Britain and the United States* (forthcoming).

⁵On the question of autonomy, in addition to the works cited in note 2, see a recent symposium in the *American Political Science Review* 82 (1988): 853–901, with a lead essay by Gabriel Almond and rejoinders by Eric Nordlinger, Theodore Lowi, and Sergio Fabbrini.

immediate policy problems. Similarly, the privileged position of the state when it comes to policy formation has left public officials of one sort or another with the authority, finally, to decide what knowledge to apply.

How does all this relate to the state's role in formulation of economic knowledge? To perform its various functions effectively, as well as to maintain legitimacy, a government must have bases for its actions and be able to justify its policies, especially when these policies conflict with the pressures of private interests. On the one hand, this entails marshaling accurate empirical information about the condition and operations of the economy; on the other, it means having to rely on explanatory models of its operations. These models are not necessarily empirically based, or always fully articulated as analytical constructs, but they nevertheless amount to a specific form of economic knowledge, even when (as is almost invariably the case) they incorporate potent political assumptions and values. (See the next section for a discussion of the concept of economic knowledge.)

It is also important to emphasize that the state's accumulation of information and application of models are related to the performance of functions that no private interest can adequately undertake, namely, adjusting or at least recognizing different sectional interests, pursuing general objectives, and assessing particular policies in light of their consequences for society as a whole. The state, after all, *is* different.

As already implied, the state's concern with economic knowledge in its various manifestations can be considered from two perspectives. One involves the relationship between policy and knowledge: Is knowledge policy-driven, or is policy knowledge-driven? Do people know in order to act or act in order to know? How do specific situations, contexts, and historical conditions affect the knowledge-policy relationship? The other involves the role of institutions in the development of ideas and of the state: To what extent do acts of inquiry and management transform the very agency that initiated them and the knowledge they were designed to identify? These broad topics are discussed in the next two sections, as a general prelude to the substantive chapters following in this book.

SOME CATEGORIES OF ECONOMIC KNOWLEDGE

This is not the place to enter deeply into philosophical discussion of the nature and status of knowledge in general, or of the criteria for judging progress (or, for that matter, retrogression) in economic knowledge in

particular.⁶ It does seem useful, nevertheless, to specify what we mean, in the present context, by “economic knowledge.” It may also be helpful at this stage to draw attention to the different types of economic knowledge that have some claim, with other types of knowledge and belief, to determine policy, and to the different ways in which such knowledge has been made available to politicians and bureaucrats for purposes of state.

As Robert Cuff’s penetrating summary comments at the conference suggested, the categories of economic knowledge exemplified in this volume⁷ largely reflect the various ways in which that knowledge has entered political debate and policy-making.⁸ Taking Cuff’s taxonomy as the basis for our approach, we can identify the following distinct types: *professional, or disciplinary, knowledge; informed opinion, or practical knowledge; and cultural beliefs and values* regarding the economic order. The first category, professional, or disciplinary, knowledge, refers to knowledge based on organized inquiry or research, including both the systematic collection of relevant empirical data and the formulation of general, middle-range and specific theories and models. Such knowledge passes through a system of professional evaluation and criticism. Economic discourse at this level incorporates both debates about macro-economic models of overall economic performance and more empirical analytical questions having to do with the problems of specific economic stages, industries, or sectors.

Informed opinion, or practical knowledge, includes the whole structure of quasi-technical rules and operating assumptions possessed and used by administrators, politicians, economic journalists, business people, labor leaders, and others who, although not actively engaged in formal, structured economic inquiry, find themselves more or less constantly involved in assessing economic performance and making decisions with economic consequences. Their understanding of economic relationships is normally based both on formal instruction in economics, often

⁶See Daniel M. Hausman, ed., *The Philosophy of Economics: An Anthology* (Cambridge, Eng.: Cambridge University Press, 1984); Terence Hutchinson, *On Revolutions and Progress in Economic Knowledge* (Cambridge, Eng.: Cambridge University Press, 1978).

⁷Our categorization was derived from the discussion in the conference itself, and in this respect we were particularly dependent on the provocative and detailed synthesis offered by Robert Cuff in his concluding remarks. Cuff identified four different uses of “knowledge” in the papers presented at the conference: formal disciplinary knowledge; informed or lay opinion; general “folklore”; and practical knowledge. These, with some adaptation, have become the basis for our approach, although for heuristic purposes we have conflated the second and fourth categories.

⁸Thus, the categorization contains a tautological element, in that the categories are derived from the very issues to which we apply them.

limited to popularized versions of “masterworks” such as those by Smith or Keynes or Friedman, and on intermittent, problem-focused reading in various types of economic literature, including trade publications, government reports, financial journals, and the like. This category of economic knowledge is also, of course, derived from their own direct experience of the performance and vicissitudes of the economic system.

The third form of policy-relevant economic knowledge, cultural beliefs and values, embraces moral precepts, political convictions, social expectations, and customary maxims that people draw on when making judgments regarding economic questions. Derived from a wider range of experiences and sources than the purely economic, these guiding principles and assumptions about what is right or wrong, natural or unnatural, beneficial or dangerous to the public good provide a basis for general conceptions of the economic system as an element in the total social order. Such designs for national life and progress are, in the widest sense, models of political economy. They encompass the economic elements in the system of beliefs and values—the “civic culture”—that operates more or less coherently in any modern society, and on whose most fundamental elements there is often widespread agreement (“the laborer is worthy of his hire”; “each tub must stand on its own bottom”; “good times follow bad”).

But this category of knowledge also includes opinions and expectations that are peculiar to particular subcultures (e.g., a habitual distrust of big business or of big government; contempt for welfare recipients or a conviction that the rich cannot possibly deserve their wealth). Such myths and values comprise, at the most general and unscientific (but not necessarily irrational or false) level, the “economic mind” of the nation or group. This is the kind of economic knowledge any person is first exposed to, and most people, including economists and bureaucrats, maintain such beliefs alongside or underneath more sophisticated forms of economic knowledge all their lives, except when a major crisis cuts the ground from under their system, as was the case for many Americans and Britons who lived through the Great Depression.

Policymakers often base their economic decisions more on established principles drawn from earlier experiences that have shaped the national culture (the “lessons” of the Poor Laws, for example), or on traditional sociopolitical values, such as individual responsibility, than on the empirical or theoretical findings of economists. Even if persuaded by new data, politicians understand that people hold such bedrock values and often refuse expert advice that points in a different direction.