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## The Economics of Kenneth Boulding

*Leonard Silk*

An economist, trained at the greatest of our lakefront universities, was sent on a fact-finding mission to what used to be called a banana republic and is now called a developing country. The economist decided it would be a good idea to observe rural development with his own eyes, so he took a bus ride into the countryside. There was no one on the bus—an ancient and rickety bus—but the economist and the driver. Twenty miles out of town the heavens opened, a mighty rain fell, and the bus leaked badly. Indeed, the bus had a big hole in its roof just above where the economist was sitting. He clutched his seersucker jacket tightly about him, but the rain kept falling upon him, and he was a miserable economist indeed. Suddenly, the bus driver noticed what was happening, stopped the bus, went back to the economist, and asked him: “*Hombre*, why don’t you exchange your seat?” “With whom?” asked the well-trained economist in disgust. And the kindly bus driver returned to his wheel, crushed and humiliated.

Kenneth Boulding has taught us, or tried to teach us, to look with the eyes of a child or a bus driver upon the world, the people in it, the good in it, and the evil in it, and to mold our science to fit the world, not the world to fit our science. Otherwise, there can be only a silly

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scholasticism designed to serve the self-interest of an all too visible college.

The image of the market, which dominates the waking hours and the dreams of so many economists, can distort reality and lead to wrong-headed, inhumane, and self-destructive actions and nonactions, as Boulding has shown. No enemy of the market in its appropriate place and function, rather, a great respecter of the market, Boulding has demonstrated that it is no *machina ex deo* for organizing economic and social relations, but only one of three broad forces—exchange, coercion, and love. Human societies have elements of all three and always have had. If two of the three are older than the others, I should think they are coercion and love, the attributes of the smallest and most simply organized social units. But perhaps exchange, the voluntary bartering of goods, services, and favors, has also been there since humans became human and began to exercise free will. Yet, voluntary exchange seems to me to assume a degree of freedom that was lacking, or present in only embryonic form, in the earliest human societies.

The libertarians apparently believe, however, that if the market has not yet established its demesne over all aspects of social life, it *ought* to do so—for the sake not only of personal freedom, but also of efficiency and progress. Boulding rejects this proposition as an ideology that would squeeze the life out of humanity, in a time when mankind is faced with threats to its very existence from exfoliating military and industrial technologies that could blanket and smother the resources of the earth. Boulding's economics is an economics of life.

But some may ask whether it is economics at all or the end of economics? Boulding does not seem to mind which way his assault on conventional economics is interpreted. As he has said: "I have been gradually coming under the conviction, disturbing for a professional theorist, that there is no such thing as economics—there is only social science applied to economic problems. Indeed, there may not even be such a thing as social science—there may only be general science applied to the problems of society." And, in his ken, there is much more than social science; there is religion and philosophy, especially ethics, without which economics and all science are, if not mindless, then heartless and dangerous.

Boulding refuses to accept the doctrine, traditional in this profession, that economics is and should be concerned with means not ends. Boulding believes that economists, like other human beings, cannot avoid the question: Do I want—do we want—the right things? Recognizing that conventional economics does not provide a system of thought for

discovering what *are* the right things, he would open the doors of economics to other sciences and to other ways of knowing, whether these be rational, instinctual, or mystical. Boulding has shocked or at least bewildered many of his secular colleagues by seeking “practical instruction from the divine.” He regards the world of rational thought alone, especially that kind of something-maximizing or something-minimizing rationality that is peculiar to economics, as “chilly” and, even regarded only as a science, a poor guide to understanding man in his totality.

He is suspicious of mathematics as the equivalent of richer if less exact literary language. In his 1948 review of Paul Samuelson’s *Foundations of Economic Analysis*, which he hailed as an important book that should be studied not only by the mathematically baptized but also by the unwashed, Boulding nevertheless warned: “Mathematics is only part of the foundations of economic analysis; its other foundations lie in philosophy, in the other social sciences, and even in art and literature where that essential but nonmathematical quality is developed. . . . If economics becomes a preserve of the higher mathematicians, it will lose its essentially humanistic and empirical quality.” And he cautioned economists against becoming a “sect, shut up in their own wonderland of abstraction and generality.” Communication, he observed, is in considerable degree a moral problem, an obligation laid upon economists to convey their knowledge and help to the rest of society. It would be essential to make economics a branch of mathematics if that were where the route to deeper knowledge of society lay, but Boulding did not believe that route would carry economics very far. He sensed a “rapidly diminishing marginal productivity in the application of mathematics to economics” and suggested that “it may well be that the slovenly literary borderland between economics and sociology will be the most fruitful building ground during the years to come and that mathematical economics will remain too flawless in its perfection to be very fruitful.” Today, long after the mathematical revolution, many economists, including some of the most highly skilled in mathematics, are mourning the aridity and lack of fecundity of economics during the past three decades. The fault does not lie solely in the effort to apply higher mathematics to economics but perhaps even more in the effort to mathematize an economics that is too narrow, too rigid, too limited in its conceptions of social organisms, human beings, and human behavior.

Economics needs to settle down to live with mathematics in a more balanced and harmonious way, without antagonism or know-nothingism, on one side, or false display and snobbery, on the other. To the extent that economics continues to be concerned with its traditional demesne

of wealth-producing, wealth-using, resource-allocating, income-distributing activities, all of which have quantitative aspects, it can never sever itself from mathematics and statistics, nor has Boulding ever suggested that it should.

From the beginning of his career as an economics student, when Lionel Robbins first packed him off for a summer of reading in Alfred Marshall, A. C. Pigou, Gustav Cassel, and Ralph Hawtrey, Boulding proved himself adept at playing the economic game as it has existed. But he was never content simply to accept economics just as he found it; he always asked: Is this how it really is?

His technical papers show daring and imagination from the first. He has nominated "A Liquidity Preference Theory of Market Prices" (published in *Economica* in May 1944) as his "most important contribution to economics (although, again, one to which nobody has paid much attention)." In that article he concluded that changes in the liquidity preference of firms, as well as the composition of their assets, may have profound effects on their demand for factors of production, such as their investment in new plant and equipment. Liquidity preference has largely been neglected in the theory of the firm, and the economics profession is just catching up with Boulding's insight. Liquidity preference is crucial to understanding recent swings in capital spending by industries. The slowdown in capital spending in 1975–1977, as Seymour Himmelstein and Larry Chimerine of IBM have pointed out (*New York Times*, 15 December 1977), stems in large measure from the fact that corporations, after borrowing heavily to finance capital spending in 1973 and 1974, anxiously decided to cut their borrowing and capital spending in order to rebuild their reserves of cash and other liquid assets—a beautiful acting out of the Boulding formulation. In this and so many other examples Boulding has looked closely at the *actors* as absolutely fundamental to their acts; this is no mere truism; it is what makes Boulding a latter-day institutionalist. He has greatly enriched the theory of the firm, broadened it into one that applies to all sorts of organizations, including universities, labor unions, foundations, nation states.

His gift of portraiture, his eye for what *is* from moment to moment, makes him focus on *stocks* rather than *flows*: stocks of capital, resources, people. It was his insight that Malthusian population theory could be generalized into capital theory and into the economics of ecology. His pioneering concern about the environment derived from his ethics and from his economics. He saw consumption not as the essence of economic activity, as in conventional economics, but as the destruction of assets, a kind of death. Growing appreciation of the perishability of the

world's resources has widened public appreciation of Boulding's insight, rooted in his love of nature and concern for future generations. He has gone in search of John Stuart Mill's "stationary state," in which people can settle down to live more peacefully. He does not want them to live meanly, but better; the ultimate resource that may enable them to do so is knowledge, which is antientropic.

Seeking peace, Boulding studies human conflict in all its forms. He is distrustful of coercive systems based on fear, but he knows that fear has its uses, including fear of the tax collector and fear of the law. Society seems unable to live without coercive elements, and paradoxically, it cannot achieve freedom without them. The greatest evil may not be coercion as such but, as Reinhold Niebuhr tried to persuade Boulding, people's selfishness, the arrogance that compulsively puts my interests ahead of yours.

Mankind desperately needs institutions to bind people together, to build love and allegiance among them. In our time organized religion cannot be said to have been a brilliant success in teaching people to love one another. The nation state has sought to assume this integrative role, but it has largely failed; indeed, it seems to promote hostility among nations. Boulding suggests that the corporation would fail if it tried. No corporate leader, says Boulding, can ever say to the broad public: Ask not what General Motors can do for you; ask what you can do for General Motors.

Can the integrative work of society be done only by small groups of people, living in families or other clusters, or by the state? But the family seems to be declining, and the state is seen as just a vast bureaucracy, no better (perhaps worse) than General Motors. Can new integrative institutions be built between the family and the state? Or can the state itself be transformed into something more humane, more worthy of love, more decent and sensitive in its relations with people? Would a superstate be better or worse than a nation state? Hannah Arendt said "worse" because it would be insensitive to the particular needs of people and all-powerful. Boulding suggests that we have not yet found the way; no lover of raw capitalism, he fears socialism, as it has materialized, even more. Our task is to build a state that will "right wrongs," not commit wrongs and conjure up even more terrible ones.

What economics can, perhaps uniquely, contribute to the betterment of mankind is to increase and deepen our understanding of values; the economic process in human societies can be seen as complex acts of evaluation, acts of choice, as an evolutionary process, a process that unites the most commonplace events with the grandest. Poets have

sensed this continuum from the daily business of the marketplace to the great philosophical issues of human freedom, equality, and love. Emily Dickinson wrote:

I took one draught of Life,  
I'll tell you what I paid—  
Precisely an existence—  
The market price, they said.

And Tom Paine said in 1776: “Heaven knows how to put a proper price upon its goods and it would be strange indeed, if so celestial an article as Freedom should not be highly rated.” The most famous of our prayers asks the Lord to “give us this day our daily bread and forgive us our debts as we forgive our debtors.”

There is no discontinuity in human affairs, great or small. If economists have customarily taken as their subject matter the ordinary affairs of the marketplace, the bank, or the government bureau, this does not mean that economics, or a greatly enriched economics, has nothing to do with the greatest issues of humanity. Quite the contrary: The “study of mankind in the ordinary business of life,” as Marshall put it, has deep implications for all of human affairs as people go about the work of creating values and organizing social systems. It was the founding father, Adam Smith, whom Boulding reveres, who first showed the intricate connections between the daily business and the grand system of humankind. His formulation is too simple for a world that has increased in complexity by orders of magnitude, but we must reach backward and forward for a comparable conception. That, it seems to me, is what Boulding has tried to tell us, through economics and beyond economics.