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Volume Title: The Task of Economics

Volume Author/Editor: Solomon Fabricant

Volume Publisher: NBER

Volume URL: <http://www.nber.org/books/unkn65-1>

Publication Date: 1965

Chapter Title: The Task of Economics

Chapter Author: Solomon Fabricant

Chapter URL: <http://www.nber.org/chapters/c5231>

Chapter pages in book: (p. 1 - 3)

P A R T I

**The Task
of
Economics**

Only recently, as the generations go, has the possibility of human progress been a serious question for hardheaded men.

To Malthus, at the close of the eighteenth century, the speculations of Condorcet and Godwin on the "perfectibility" of man and of society appeared "little better than a dream, a beautiful phantom of the imagination." "I ardently wish for such happy improvements," Malthus confessed, "but I see great, and, to my understanding, unconquerable difficulties in the way of them."

Vast changes already under way at the time Malthus wrote were greatly to alter the thinking of the practical men who came after him. By 1890, Alfred Marshall could say: "Now at last, we are setting ourselves seriously to inquire whether it is necessary that there should be any so-called 'lower classes' . . . whether it is really impossible that all should start in the world with a fair chance of leading a cultured life, free from the pains of poverty and the stagnating influences of excessive mechanical toil. . . . The question is being pressed to the front by the growing earnestness of the age."

What had "done more than anything else to give practical interest" to the question, Marshall noted, was "the steady progress of the working classes during the nineteenth century."

This progress has continued and perhaps even accelerated since Marshall wrote. Also, our age has grown still more "earnest." We no longer speak of the "lower classes." And we are much more confident. Even those still unsure of society's power to cope with its economic problems affirm the need to test its capacity with one or another social experiment or innovation. Today, most people would put Marshall's question less diffidently. Yet the words with which he opened his *Principles of Economics* may still serve to state, with sensible caution, the major economic question that engages our own generation, and not only in the "developed countries" but throughout the world.

Marshall went on to say that "the question cannot be fully answered by economic science.

... But the answer depends in a great measure upon facts and inferences, which are within the province of economics; and this it is which gives to economic studies their chief and their highest interest."

These words of Marshall may also serve us. They define the task and the responsibility that economists assume when they undertake research. It is their task to gather the economic facts and draw the inferences that can help answer the question Marshall posed, and help answer it in the only convincing way: by enlarging further the proportion of men and women who "start in the world with a fair chance." It is the responsibility of economists to provide facts and inferences that are both sound and relevant—facts and inferences on national income, consumption, and capital formation, on economic growth and business cycles, on financial affairs and international economic relations—facts and inferences that can command the credence of men of diverse views on how to improve the "fair chance" every human being deserves.

For us at the National Bureau, this has meant working during the past year, as in earlier years, as hard and as carefully as we could, on the several parts of the task that economists set themselves:

clarifying the concepts used in dealing with economic problems—for example, the concept of "credit quality," with which Earley is struggling, because we feel it to be important to an appraisal of the country's economic stability;

devising and testing economic measurements—for example, of the number of job vacancies, which, when compared with the number of unemployed, might help to throw light on the state of the aggregate demand for labor, as Burns mentioned in opening our recent conference on the measurement and interpretation of job vacancies;

compiling, in systematic form, significant facts on economic organization and change—for example, facts on the forms, terms, costs, and magnitudes of consumer finance, which has assumed a large role in today's economy, and on which Shay presents a progress report below;

describing and explaining economic behavior—

for example, with respect to personal savings under the impact of growing public and private pension systems, the subject of a paper by Cagan now in the hands of the Board for review;

drawing the implications of changes in economic structure and organization—for example, the relative growth of the service industries, the subject of Fuchs' report;

providing useful clues to the future—as in the studies, critical and constructive, of forecasts of short-term economic change, on which Zarnowitz reports;

analyzing and comparing present and proposed policies—as in the study of wage and price guideposts we are planning as part of the new project on productivity, employment, and price levels.

What has been done during the year at the National Bureau is described more systematically in the other reports that follow: reports on studies completed and begun, in Part III; on the progress made in research under way, in Part IV; on research conferences planned and held, and on the publication schedules of the conference proceedings, in Part V. And as I have mentioned, three of my colleagues report more fully on the areas of research for which they carry chief responsibility. Their reports appear in Part II.

Before we turn to these, let me interject a note of caution concerning the expectations to which economic research may reasonably give rise. I shall use the words of our proposal for the project on productivity, employment, and price levels, which we are designing to study an important problem—the problem whether, or to what degree, trends in the price level are related to the advance of a nation's prosperity. In the more specific terms in which it is often put, the problem is whether, and if so how, a free society can achieve significant increases in productivity, reach and maintain reasonably full employment, and yet avoid inflation. In requesting support for the project, we stressed that "the problem of maintaining prosperity without inflation in a society that is basically free is surrounded by so many difficulties, political as well as economic, that too much must not be expected from any program of research.

No matter how well or skillfully it is done, it may still not provide definitive or generally acceptable answers. Before that state is reached, much further experimentation with monetary, fiscal, and other policy weapons may need to be carried out both by our government and other nations. It is a matter of considerable importance, however, what experiments will be undertaken and how they may be carried out. If nothing more, basic

studies on relevant questions should help to provide some useful guidelines for future experiments and thus—it may be hoped—help to avoid serious mistakes of economic policy.”

To help provide useful guidelines for economic policy, and thus to help avoid serious mistakes, is to help conquer some of the difficulties that stand in the way of man’s improvement. This is enough to justify our labors.

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