Diminishing Returns

by Jeremy Lott

Economics as Religion: From Samuelson to Chicago and Beyond
by Robert H. Nelson
University Park: Pennsylvania State University Press; 378 pp., $35.00

Most partisan recollections of the economic world that existed before Adam Smith conjure up words from "feudal" to "primitive" to "mercantilistic" to "Catholic"—a dark era ridden by "just price" theory, wanton poverty induced by ridiculous regulation and barriers to international trade, and the divine right of kings. Then (so the story goes), Smith published *The Wealth of Nations*, turning the world on its head. His ideas were adopted by a group of enlightened British colonial rebels who created the world's first nearly *laissez faire* regime, affirming in its "founding document" every person's right to pursue happiness (*i.e.*, the right to become stinking rich) over and against any other ethical considerations. Tariffs fell everywhere, prosperity multiplied, peace reigned, and the lion lay down with the lamb and nuzzled it.

During the middle of the 20th century, Paul Samuelson, author of the widely used college textbook *Economics*, was regarded by many as *the* modern economist. Samuelson claimed to speak authoritatively for *all* of economics, and his vision was at least superficially different from Smith's. A few Neanderthals might wish to "turn the hour hand back toward *laissez faire*," wrote Samuelson in a spasm of chronological snobbery in the first (1948) edition of his book, but Smith's "mystical principle of the 'invisible hand' . . . [has] done almost as much harm as good in the past century and a half." Monopolistic railroads were allowed to soak poor farmers, oil prices were held unnaturally high, the concentration of wealth was heavily skewed toward the rich (one of the few things Samuelson is willing to label "evil"), and rampant stock speculation helped to launch the Great Depression. Better to ditch that old-time religion and adopt the new, centralized scientific methods and solutions. Otherwise, Samuelson warned, the Soviet Union, being the more scientific of the superpowers in its organizational approach to society, could overtake the still backward United States.

Robert Nelson makes a compelling case that Professor Samuelson actually believed this nonsense. Samuelson, like his mentor John Maynard Keynes, wasn't really a communist, Nelson writes in *Economics as Religion: From Samuelson to Chicago and Beyond*, but he did share some basic assumptions with Marx, and these assumptions were only rhetorically "scientific." In fact,

> [I]n terms of ultimate values, Keynesianism was only a modest variation on Marx—on the recent revelation of God's actual plan for the world, that the Christian Bible is apparently mistaken, that God actually works in history through economic forces and is planning a glorious ending to the world based on the workings of rapidly advancing material productivity.

Both ideologies, that is, in a reading strikingly similar to the visions of apocalyptic prophets of the Old Testament, looked to economic tumult and the eventual resulting material progress as the engine of history that would usher in a sort of Heaven-on-Earth. Both, in that sense, were economically deterministic. Samuelson even went so far as to say that the most useful thing he could know about a man was not his religion nor his upbringing but his checkbook balance. Once material demands were satisfied, however, mankind would be free to pursue . . . let us just call it "bliss."

Thus Samuelson, initially at least, disagreed with Marx over the means to the end, not the end itself: overcoming the problems of self-interest to create a materialistic Utopia. The difference, of course, is that Samuelson and his ilk thought the market mechanism a valuable tool in reaching this goal through increasing "efficiency." Markets, however, could only "help" to bring this about—and only if guided by a very visible hand. First, at the advice of entirely dispassionate economists, governments had to tinker with such things as interest rates and money supplies and vigorously enforce anti trust laws to break monopolies. Second, "market failures" occurred, which the government had to fix by providing such things as primary education and unemployment insurance. Third, personal income needed to be redistributed from the rich to the poor through entitlements and a steeply progressive income tax.

Nelson likens this neoclassical school of economics to Roman Catholicism, assuming as it did an abundance of faith in an overriding authoritative institution that would do right by the people. Samuelson and company were the "priests" of the new order, trustworthy to navigate disinterestedly the choppy waters of public opinion. As with the Catholic Church, Nelson says, such unsubstantiated "heroic assumptions" were simply begging for reformation.

Well, they got it, courtesy of the renegade economists of the University of Chicago. Frank Knight, Milton Friedman, George Stigler, Ronald Coase, and others argued relentlessly that the government interveners were just as self-interested as anybody else and that they were, in fact, quite likely to impede, not increase, efficiency. Democratic governments (as the leaders of what would come to be known as the "public-choice school" pointed out) are often held hostage by various interest groups. These economists replaced the static picture Samuelson had drawn of the market mechanism—Nelson calls it "mathematical poetry"—with a more dynamic model, firmly locating rational self-interest at the center of their analysis.

Elevating self-interest to the *sine qua non* of economic analysis was nothing new. In perhaps the most quoted passage of *The Wealth of Nations*, Smith wrote, "It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self-interest." In practice, however, there had always been limits, set by the preferences or squeamishness of the reigning economic "priesthood."

As the Protestants had learned, reformations tend to take on a life and logic of their own. Second- and third-generation Chicago scholars such as Gary Becker and Judge Richard Posner have carried their analyses to new heights—or ridiculous extremes, depending on your point of view. These men have scrutinized everything, from consumption patterns to religious devotion to marriage, with the intent of divining what was in them for rational human agents. Even charity had to be explained in terms of self-interest: Mother Teresa, apparently, derived some measurable benefit from helping the poor expire in peace.

While the Chicago School took issue with what they viewed as a lack of rigor on the part of their more squeamish peers, Nelson argues persuasively that all of them (with the exception of Knight) bought into the same basic methodology and progressive economic goals. Though Friedman, for instance, dogmatically endorsed freedom for its own sake, all of his arguments turned not on moral principles but on mathematical demonstrations of the economic benefits to be had by loosening the reins of self-interest. To understand how Friedman and Samuelson could end up on the same side of *any* debate, it is worth pondering a passage from the early 1990's cult classic, *An Incomplete Education*:

> To get a firm grasp on profit and its counterpart, loss, you might want to consider the Biblical quotation, "What does it profit a man if he gain the whole world but lose his soul?" For an economist, the correct way to answer this question would be to calculate the revenues received from gaining the whole world and subtract the costs incurred by losing one's soul. If the difference (known as "the bottom line") is a positive number, you have a profit.

Indeed, in their dogged pursuit of rational self-interest to the exclusion of much practical information, most of the economists discussed in Nelson's book come across as extremely odd characters. When Stigler turned Chicago-style analysis on the Chicago School itself, he determined that its members were either tools, advancing the interests of the wealthy by stealth, or were prey to an irrational belief, trying to convince others of that thing for reasons that would forever remain beyond the scope of economic analysis. Moreover, when we set the supposedly singular analytic achievements of Adam Smith in the context of his time, we discover them to be not original insights at all but simply brilliant reiterations of previous ideas.

Who were the thinkers who first stated those ideas? No other than Catholic theologians, from St. Thomas Aquinas to Duns Scotus to Dominique Banez. After examining the idea of "just price," Joseph Schumpeter explained that, for the theologians, when the abstractions were boiled away, it was "simply [the] normal competitive price." Theological consensus generally prescribed only three criteria under which interventions in the market were justified: price discrimination, collusion, and gouging. As Nelson comments dryly:

> What is remarkable is that these three conditions of medieval "injustice," as derived from natural-law theological reasoning of the times, prescribe almost exactly the same sets of policies for curbing self-interest in the market that have been widely recommended by leading economic and other defenders of the welfare and regulatory state in the twentieth century.

In the ongoing argument over whether economics should be ranked as an empirical or a social science, Nelson situates it much closer to the latter. No one economic model, for instance, has come anywhere close to accounting for the economic choices of modern corporations. All talk of *ceteris paribus* glosses over the fact that there are simply too many variables, even in the most transparent of corporate cultures, for economics to be of much analytical use.

While he finds the discipline valid, Nelson refuses to locate the utility of economics in its predictive powers. Most economic truths, he believes, are too obvious (man is selfish, prices help us to decide between things, we do not work as hard without incentives, *etc.*) to grant the profession the scientific mantle that it covets. Rather, the strength of economics has come historically in the form of the advantage provided—from Adam Smith to Paul Samuelson to celebrity economists of the present day—by a secular clergy whose job it is to bless the market, day in and day out, with the reigning economic spirit of the age.

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A Limited Victory

by Thomas E. Woods, Jr.

Perpetual War for Perpetual Peace: How We Got to Be So Hated
by Gore Vidal
New York: Thunder's Mouth Press; 160 pp., $10.00

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Gore Vidal, award-winning essayist, novelist, and playwright, has been a keen observer of American culture and politics for several decades. Yet when he originally submitted to major American magazines of opinion the essay that forms the first chapter of his new book, *Perpetual War for Perpetual Peace*, he found himself completely shut out. No one wanted to publish his point of view or, indeed, much of anything that defied the government line—straight out of the Madeleine Albright Book of Inanities—