sanity, humanity and science

post-autistic economics review

Issue no. 15; September 4, 2002 back issues at www.paecon.net
subscribers in over 120 countries latest economic journalism at GEN

Subscriptions are free, To subscribe, email "subscribe". To unsubscribe, email "unsubscribe". Send to: pae_news@btinternet.com You can help the movement by forwarding this issue to a colleague.

If you wish**,** we will resend this issue to you as an attached document. Just send us the message "resend".

This is the second anniversary issue. *The Crisis in Economics: The Post-Autistic Economics Movement: The first 600 days*, a collection of material from the first 12 issues, will be published by Routledge early in 2003.

In this issue:

Yes, There is Something Worth Keeping in Microeconomics

Deirdre McCloskey (University of Illinois at Chicago / Erasmus University Rotterdam)

Bernard Guerrien is severe on Messrs. [and no Mesdames, I note] Varian, Schotter, Kreps, Mas-Collel, Whinston, and Green, and I think he's quite right to be so. The usual idea of "microeconomics" is, as Guerrien avers, formalism useful only for the generation of articles in the *American Economic Review* and worse. It's scandalous that game theory and GE and overlapping generations and other mere existence theorems are taught as "tools." As we say in American English (with thanks to Yiddish): tools, schmools. No physicist would consider such stuff scientific. She would want tools that can measure.

The problem comes partly from a terminological confusion. "Theorist" has come to mean in economics "guys trained in Mathematics-Department math." (I note again that this Hilbert/Bourbaki style has nothing, nada, rien to do with the sort of math that physicists and engineers actually use to investigate the world; go have a look at *The Physical Review* and you'll see what I mean.) Since the "theorists" so defined can't do anything else (like give a substantive course in economic history or in urban economics), they get assigned to first-year graduate courses. It's their comparative advantage, considering that the department has made the mistake of hiring them in the first place.

The result has been a catastrophe for economic education. Most economists arrive on the job without knowing how to think like economists. In fact they've been specifically and elaborately trained by the "theorists" *not* to think like economists, but to think like Hilbert/Bourbaki mathematicians, though of course to a childishly simple standard. (By the way, a distinguished committee of the American Economic Association was some years ago on the edge of doing something about the catastrophe; Bob Lucas vetoed the proposal, since he wants economics to carry on being unscientific.)

So I agree. I highly recommend a pamphlet just published at the University of Chicago Press, *The Secret Sins of Economics*, which shows how thoroughly I agree.

My disagreement with Guerrien is merely this: if microeconomics were properly taught it would be obvious that it *does* indeed have numerous scientific uses. Not the Whinston and Green stuff, on the whole. Most of that is useless, unless you think "use" means *not* "good for grasping the world in a quantitative way" (called "science") but "good for generating publishable articles."

Yet there is tons of really useful stuff in, say, (the lamentable George) Stigler, *The Theory of Price*, or in Steve Landsburg's or David [*sic*] Friedman's similar books; or (if I may) in a wonderful but neglected book published last in 1985, *The Applied Theory of Price*. (It's available *free* in its entirety, diagrams and all, on the web site www.uic.edu/~deirdre2; David Friedman's is available free on *his* web site, too.) If graduate courses taught "micro theory" in this sense—namely, ideas about how to show this or that effect in an economy, quantitatively—economists would be good scientists instead of bad philosophers. Some of the economists, admittedly, survive the first-year courses and go on to actually think about economic ideas and to measure their oomph in the world. But so do some children survive households with beatings and sexual abuse.

It just won't do, therefore, to say as Guerrien does that price theory (as we Chicago types prefer to call it) "obviously contradicts almost everything that we observe around us." Huh? When OPEC (viz., Saudi Arabia) cut the supply of oil in 1973, didn't the relative price of oil rise, just as a simple supply-and-demand model would suggest? And when the population of Europe fell by a third in 1348-50 didn't the ratio of wages to rents double, just as a simple production-function-and-marginal-productivity model would suggest? The point is that both of these can be made as quantitatively serious as you want. They are real scientific ideas. If you want to see hundreds upon hundreds of such examples, see *The Applied Theory of Price*---or, indeed, the serious scientific work of any serious economic scientist, someone actually trying to measure the oomph of an effect: Robert Fogel, say, or Moses Abramowitz, or Simon Kuznets (their teacher).

Let me put down the following challenge to the people who think they hate, just hate, neoclassical price theory. Go work through a serious book about it—not the "theoretical" micro that Guerrien and I both think is silly---and *do the applied problems*. If you can't get inside the hundreds of empirical exercises in, say, my book, or in the applications of price theory as they occur (obscured by nonsensical existence theorems) in the neoclassical literature then you don't really know what the tradition of Marshall-Wicksell-Friedman-Coase-Alchian is about, and you are not qualified to sneer at it, right? Doesn't that sound fair? I think so, and I would apply it to my own understanding of Marxian or institutional economics.

Deirdre McCloskey's books include The Rhetoric of Economics (Rhetoric of the Human Sciences), The Vices of Economists : The Virtues of the Bourgeoisie, and Knowledge and Persuasion in Economics

SUGGESTED CITATION:
Deirdre McCloskey, "Yes, There is Something Worth Keeping in Microeconomics", ***post-autistic economics review***, issue no. 15, September 4, 2002, article 1. http://www.btinternet.com/~pae_news/review/issue15.htm

Can we please move on? A note on the Guerrien debate

James K. Galbraith (University of Texas at Austin, USA)

Gentlemen, ladies, comrades... Your contributions to the Guerrien debate have been reflective, even wise occasionally. But even where points were most deftly made, as they were (to my taste) by Peter Dorman and by Steve Keen, something about the discussion troubles me. There is here the flavor of a certain type of social activist, earnest and dedicated, honorable in every way, yet so caught up in the problems of the poor that one comes finally to understand they would be quite lost if poverty were ever made to disappear.

In other words, aren't we wasting our time? Isn't there more important work to do? In the immortal words of Thorstein Veblen:

> If we are getting restless under the taxonomy of a monocotyledonous wage doctrine and a cryptogamic theory of interest, with involute, loculicidal, tomentous and moniliform variants, what is the cytoplasm, centrosome, or karyokinetic process to which we may turn, and, in which we may find surcease from the metaphysics of normality and controlling principle?

Critics of the neoclassical doctrines have penned, over more than a century, millions of words -- though few as good as those just cited. But how many have devoted themselves to new and alternative theory, to an economics that was not merely a variant or a gloss on neoclassical doctrine? Keynes. Robinson. Schumpeter. Ayres. Simon. Leontief. Galbraith *père.* Georgescu-Roegen. Sraffa. Minsky. Davidson. Nelson and Winter, too tentatively. Pasinetti. Peter Albin. And since then? *Yes I know* there are others, including some readers of these very words. But aren't you tired of embedding your originalities in critical restatements, however elegant, of what is already clear to thousands of bright undergraduates on the second day of class?

It is time to get on with it. We need a replacement for neoclassical economics. A new curriculum. Let's build it. Let me suggest a few key characteristics of what should follow.

1. The micro/macro distinction should be abolished. It exists in principle to separate irreconcilable doctrines. The new classicals have recognized this, and have abolished macro. (As Evelyn Waugh said of Randolph Churchill's surgeons, it was a miracle, they found the only part that was *not* malignant, and removed it.) We should take the opposite tack: toward a theory of human behavior based on principles of social interaction.

2. Empirical work should be privileged. Real science does not protect bad theory by concentrating on unobservables. It is, rather, a process of interaction between conjecture and evidence. In the history of science, new technologies for measurement have often preceded new ideas. Believe it or not, this could happen in economics too.

3. Mathematics should mainly clarify the complex implications of simple constructs, not obscure simple ideas behind complex formulae. Dynamical systems (as Steve Keen rightly insists), fractal geometries, cellular automata all help us to understand the principles underlying evolutionary social dynamics. They are also fascinating. They help students learn to think. Mathematics should lie, in other words, at the essential core of a new curriculum; it should not be deployed defensively, as the protective belt.

4. Our economics should teach the great thinkers, notably Smith, Marx, Keynes, Veblen and Schumpeter (to restrict myself tactfully to a few of the honored dead). We need not reinvent the field; nor should we abandon it. Economics over the sweep of history is not mainly about scarcity (which technology overcomes) nor about choice (which is generally neither free nor the defining characteristic of freedom). Rather, economics is about value,

distribution, growth, stabilization, evolution. The great ideas in these areas, and the history in which they were embedded, are fundamental. They should be taught, and not as dogma but rather as a sequence of explorations.[1]

5. Pop constructs derived from neoclassical abstractions (social capital, natural capital....) are not part of our canon. While they are noteworthy as efforts to reconcile neoclassical ideas and policy commitments to real social problems, these constructs also extend, rather than attempt to overcome, the logical defects of the neoclassical system. From the standpoint of post-autism, therefore, they represent a dead end.

6. Nor should we accept the reconstruction of economics as an amalgam of interest-group politics. This approach -- popular these days at the American Economic Association -- has become a way of isolating certain dissenters who cannot conveniently be suppressed. But the fact that race, gender, and the environment are important social constructs does not mean that economics requires a separate branch for the economics of race, another for the economics of gender, and another for "sustainable development." It should instead mean that the core of what we teach should handle these questions (which relate to power, discrimination, entropy, and so forth) in a way that is central to the discipline we espouse.

7. An economics of modern capitalism should study the actual, existing features and behavior of our system. Households, business enterprises of all the types (including some characterized by diminishing and others by increasing returns, some with monopoly power and others without), money and credit systems, governments and their budgets, and the international system are all parts of a nested, hierarchical structure of rule- and convention-setting institutions, of interacting and sometimes conflicting sources of power. Their behavior is characteristically unstable and sometimes violent. To have reduced the subject to shapeless households, firms and markets, all linked by a uniform conceptual structure of supply and demand curves (labor market, capital market, goods markets...) - and in equilibrium! – that was the original neoclassical mistake, already analyzed by Keynes in the first pages of the *General Theory*.

8. Accounting matters. We should work with and teach from the full spectrum of information sources, not merely sample surveys (with their obsessive focus on personal characteristics such as years of schooling) and the national accounts, but also credit, trade, industrial and financial data. Not to mention linking economic measurements to other information: political events, the environment, quality of life, demography, health.

9. A focus on social structures and the data that record them requires new empirical methods. The study of dispersions, of inequalities, is intrinsic to the study of power. Neoclassical economics with its bias in favor of the sample survey, the gini coefficient, and the assumption of normality in the distribution of errors has neglected the mathematics and statistics of dispersion measures. There are large gains to be had here, for small investments of effort. Likewise the study of social structures cannot be done properly with parametric techniques held hostage to the dogma of hypothesis and test. There is no single formula for empirical learning. Numerical taxonomy, discriminant analysis, multidimensional scaling, and many other techniques are available for studying the phenomena of real economic systems, and we should learn, use, and teach them.[2]

10. Finally, our economics is about problems that need to be solved. There remain before us the pursuit of full employment, balanced growth, price stability, development, a sustainable standard of life. That is why students once were attracted to our field. That is why they abandon it now. That is also why, if we develop a coherent research program, and a teaching curriculum derived from it, that broadly respect the principles outlined above, we *will prevail* in the long run.

Notes
1.I thank Pedro Conceição for his characteristic insightfulness on this point.
2. In my view, the study of inequalities and social formations provides the linkage between Keynesian macro principles and the behavior of smaller social formations – but I will not try to persuade you of that right now.

____

On Sept. 1, **James K. Galbraith** became the Lloyd M. Bentsen, jr. Chair in Government/Business Relations at the University of Texas at Austin, where he directs the University of Texas Inequality Project (ttp://utip.gov.utexas.edu)
He is also a Senior Scholar of the Levy Economics Institute, and his most recent book, co-edited with Maureen Berner, is *Inequality and Industrial Change: A Global View* (Cambridge, 2001).

SUGGESTED CITATION:
James K. Galbraith, "Can we please move on? A note on the Guerrien debate", ***post-autistic economics review***, issue no. 15, September 4, 2002, article 2. http://www.btinternet.com/~pae_news/review/issue15.htm

Kicking Away the Ladder: How the Economic and Intellectual Histories of Capitalism Have Been Re-Written to Justify Neo-Liberal Capitalism

Ha-Joon Chang (Cambridge University, UK)

There is currently great pressure on developing countries to adopt a set of "good policies" and "good institutions" – such as liberalisation of trade and investment and strong patent law – to foster their economic development. When some developing countries show reluctance in adopting them, the proponents of this recipe often find it difficult to understand these countries' stupidity in not accepting such a tried and tested recipe for development. After all, they argue, these are the policies and the institutions that the developed countries had used in the past in order to become rich. Their belief in their own recommendation is so absolute that in their view it has to be imposed on the developing countries through strong bilateral and multilateral external pressures, even when these countries don't want them.

Naturally, there have been heated debates on whether these recommended policies and institutions are appropriate for developing countries. However, curiously, even many of those who are sceptical of the applicability of these policies and institutions to the developing countries take it for granted that these were the policies and the institutions that were used by the developed countries when they themselves were developing countries.

Contrary to the conventional wisdom, the historical fact is that the rich countries did not develop on the basis of the policies and the institutions that they now recommend to, and often force upon, the developing countries. Unfortunately, this fact is little known these days because the "official historians" of capitalism have been very successful in re-writing its history.

Almost all of today's rich countries used tariff protection and subsidies to develop their industries. Interestingly, Britain and the USA, the two countries that are supposed to have reached the summit of the world economy through their free-market, free-trade policy, are actually the ones that had most aggressively used protection and subsidies.

Contrary to the popular myth, Britain had been an aggressive user, and in certain areas a pioneer, of activist policies intended to promote its industries. Such policies, although limited in scope, date back from the 14th century (Edward III) and the 15th century (Henry VII) in relation to woollen manufacturing, the leading industry of the time. England then was an exporter of raw wool to the Low Countries, and Henry VII for example tried to change this by taxing raw wool exports and poaching skilled workers from the Low Countries.

Particularly between the trade policy reform of its first Prime Minister Robert Walpole in 1721 and its adoption of free trade around 1860, Britain used very *dirigiste* trade and industrial policies, involving measures very similar to what countries like Japan and Korea later used in order to develop their industries. During this period, it protected its industries a lot more heavily than did France, the supposed *dirigiste* counterpoint to its free-trade, free-market system. Given this history, argued Friedrich List, the leading German economist of the mid-19th century, Britain preaching free trade to less advanced countries like Germany and the USA was like someone trying to “kick away the ladder” with which he had climbed to the top.

List was not alone in seeing the matter in this light. Many American thinkers shared this view. Indeed, it was American thinkers like Alexander Hamilton, the first Treasury Secretary of the USA, and the (now-forgotten) economist Daniel Raymond, who first systematically developed the infant industry argument. Indeed, List, who is commonly known as the father of the infant industry argument, in fact started out as a free-trader (he was an ardent supporter of German customs union – *Zollverein*) and learnt about this argument during his exile in the USA during the 1820s

Little known today, the intellectual interaction between the USA and Germany during the 19th century did not end there. The German Historical School – represented by people like Wilhelm Roscher, Bruno Hildebrand, Karl Knies, Gustav Schmoller, and Werner Sombart – attracted a lot of American economists in the late 19th century. The patron saint of American Neoclassical economics, John Bates Clark, in whose name the most prestigious award for young (under 40) American economists is given today, went to Germany in 1873 and studied the German Historical School under Roscher and Knies, although he gradually drifted away from it. Richard Ely, one of the leading American economists of the time, also studied under Knies and influenced the American Institutionalist School through his disciple, John Commons. Ely was one of the founding fathers of the American Economic Association; to this day, the biggest public lecture at the Association’s annual meeting is given in Ely’s name, although few of the present AEA members would know who he was.

Between the Civil War and the Second World War, the USA was literally the most heavily protected economy in the world. In this context, it is important to note that the American Civil War was fought on the issue of tariff as much as, if not more, on the issue of slavery. Of the two major issues that divided the North and the South, the South had actually more to fear on the tariff front than on the slavery front. Abraham Lincoln was a well-known protectionist who cut his political teeth under the charismatic politician Henry Clay in the Whig Party, which advocated the “American System” based on infrastructural development and protectionism (thus named on recognition that free trade is for the British interest). One of Lincoln’s top economic advisors was the famous protectionist economist, Henry Carey, who once was described as “the only American economist of importance” by Marx and Engels in the early 1850s but has now been almost completely air-brushed out of the history of American economic thought. On the other hand, Lincoln thought that African Americans were racially inferior and that slave emancipation was an idealistic proposal with no prospect of immediate implementation – he is said to have emancipated the slaves in 1862 as a strategic move to win the War rather than out of some moral conviction.

In protecting their industries, the Americans were going against the advice of such prominent economists as Adam Smith and Jean Baptiste Say, who saw the country’s future in agriculture. However, the Americans knew exactly what the game was. They knew that Britain reached the top through protection and subsidies and therefore that they needed to do the same if they were going to get anywhere. Criticising the British preaching of free trade to his country, Ulysses Grant, the Civil War hero and the US President between 1868-1876, retorted that “within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade”. When his country later reached the top after the Second World War, it too started “kicking away the ladder” by preaching and forcing free trade to the less developed countries.

The UK and the USA may be the more dramatic examples, but almost all the rest of the developed world today used tariffs, subsidies and other means to promote their industries in the earlier stages of their development. Cases like Germany, Japan, and Korea are well known in this respect. But even Sweden, which later came to represent the "small open economy" to many economists had also strategically used tariffs, subsidies, cartels, and state support for R&D to develop key industries, especially textile, steel, and engineering.

There were some exceptions like the Netherlands and Switzerland that have maintained free trade since the late 18th century. However, these were countries that were already on the frontier of technological development by the 18th centuries and therefore did not need much protection. Also, it should be noted that the Netherlands deployed an impressive range of interventionist measures up till the 17th century in order to build up its maritime and commercial supremacy. Moreover, Switzerland did not have a patent law until 1907, flying directly against the emphasis that today's orthodoxy puts on the protection of intellectual property rights (see below). More interestingly, the Netherlands abolished its 1817 patent law in 1869 on the ground that patents are politically-created monopolies inconsistent with its free-market principles – a position that seems to elude most of today's free-market economists – and did not introduce another patent law until 1912.

The story is similar in relation to institutional development. In the earlier stages of their development, today's developed countries did not even have such "basic" institutions as professional civil service, central bank, and patent law. It was only after the Pendleton Act in 1883 that the US federal government started recruiting its employees through a competitive process. The central bank, an institution dear to the heart of today's free-market economists, did not exist in most of today's rich countries until the early 20th century – not least because the free-market economists of the day condemned it as a mechanism for unjustly bailing out imprudent borrowers. The US central bank (the Federal Reserve Board) was set up only in 1913 and the Italian central bank did not even have a note issue monopoly until 1926. Many countries allowed patenting of foreign invention until the late 19th century. As I mentioned above, Switzerland and the Netherlands refused to introduce a patent law despite international pressure until 1907 and 1912 respectively, thus freely "stole" technologies from abroad. The examples can go on.

One important conclusion that emerges from the history of institutional development is that it took the developed countries a long time to develop institutions in their earlier days of development. Institutions typically took decades, and sometimes generations, to develop. Just to give one example, the need for central banking was perceived at least in some circles from at least the 17th century, but the first "real" central bank, the Bank of England, was instituted only in 1844, some two centuries later.

Another important point emerges is that the levels of institutional development in today's developed countries in the earlier period were much lower than those in today's developing countries. For example, measured by the (admittedly highly imperfect) income level, in 1820, the UK was at a somewhat higher level of development than that of India today, but it did not even have many of the most "basic" institutions that India has today. It did not have universal suffrage (it did not even have universal *male* suffrage), a central bank, income tax, generalised limited liability, a generalised bankruptcy law, a professional bureaucracy, meaningful securities regulations, and even minimal labour regulations (except for a couple of minimal and hardly-enforced regulations on child labour).

If the policies and institutions that the rich countries are recommending to the poor countries are not the ones that they themselves used when they were developing, what is going on? We can only conclude that the rich countries are trying to kick away the ladder that allowed them to climb where they are. It is no coincidence that economic development has become more difficult during the last two decades when the developed countries started turning on the pressure on the developing countries to adopt the so-called “global standard” policies and institutions.

During this period, the average annual per capita income growth rate for the developing countries has been halved from 3% in the previous two decades (1960-80) to 1.5%. In particular, Latin America virtually stopped growing, while Sub-Saharan Africa and most ex-Communist countries have experienced a fall in absolute income. Economic instability has increased markedly, as manifested in the dozens of financial crises we have witnessed over the last decade alone. Income inequality has been growing in many developing countries and poverty has increased, rather than decreased, in a significant number of them.

What can be done to change this?

First, the historical facts about the historical experiences of the developed countries should be more widely publicised. This is not just a matter of “getting history right”, but also of allowing the developing countries to make more informed choices.

Second, the conditions attached to bilateral and multilateral financial assistance to developing countries should be radically changed. It should be accepted that the orthodox recipe is not working, and also that there can be no “best practice” policies that everyone should use.

Third, the WTO rules should be re-written so that the developing countries can more actively use tariffs and subsidies for industrial development. They should also be allowed to have less stringent patent laws and other intellectual property rights laws.

Fourth, improvements in institutions should be encouraged, but this should not be equated with imposing a fixed set of (in practice, today’s – not even yesterday’s – Anglo-American) institutions on all countries. Special care has to be taken in order not to demand excessively rapid upgrading of institutions by the developing countries, especially given that they already have quite developed institutions when compared to today’s developed countries at comparable stages of development, and given that establishing and running new institutions is costly.

By being allowed to adopt policies and institutions that are more suitable to their conditions, the developing countries will be able to develop faster. This will also benefit the developed countries in the long run, as it will increase their trade and investment opportunities. That the developed countries cannot see this is the tragedy of our time.

____

Ha-Joon Chang (hjc1001@econ.cam.ac.uk) teaches in the Faculty of Economics, University of Cambridge. This article is based on his new book, *Kicking Away the Ladder – Development Strategy in Historical Perspective*, which was published by Anthem Press, London, on 10 June 2002.

SUGGESTED CITATION:
Ha-Joon Chang, “Kicking Away the Ladder”, ***post-autistic economics review***, issue no. 15, September 4, 2002, article 3. http://www.btinternet.com/~pae_news/review/issue15.htm

Is Amartya Sen a Post-Autistic Economist?

Emmanuelle Benicourt
(co-founder of Austisme-Économie, Ecole des Hautes Etudes en Sciences Sociales - Paris)

The numerous reactions to Bernard Guerrien's essay ("Is There Anything Worth Keeping in Standard Micro-Economics?", *pae review* n°12 and n°13) show that there is no consensus among heterodox economists concerning what constitutes "autistic" economics. In this article, I would like to initiate another but parallel debate by questioning the widely held opinion that Amartya Sen has made an important contribution to post-autistic economics. I wonder if he is really, as Geoff Harcourt implies, "a real force for good in our discipline and [if] the award of the Nobel Prize to him is a positive signal, to be embraced, not belittled".

Before examining Amartya Sen's theoretical system, let's recall that he was not awarded the Nobel Prize for his eventual "heterodox" research programme, but for his very mainstream contributions to "standard" economics - particularly for his work on Social Choice (Nobel Press Release, October 14, 1998). The Prize thus mainly concerns Sen's early work in which he tried to go beyond Arrow's "Impossibility Theorem" by weakening certain formal – and secondary – conditions (see, for example, *Collective Choice and Social Welfare*, 1970). The 1998 Nobel Prize, therefore, does not reward Sen's possible "de-autistification" of economics.

Some people may argue that although Amartya Sen oriented his early investigations to mainstream issues, a shift can be observed in his publications since the early 80's. Indeed, from 1982 on, Amartya Sen focused his efforts on building the so called "capability" approach. For many economists (whether orthodox or heterodox), this new system constitutes real progress in economic theory: it "reintroduces" ethical and philosophical considerations into economics. I will argue, however, that although Amartya Sen's "capability" approach treats some philosophical issues (as do all economic theories), his underlying theoretical system remains undeniably neoclassical.

Sen's "capability" approach

"Functionings" instead of "utilities"

The concept of capability was introduced so as to overcome the deficiencies of what Sen considers to be the "rawlsian" and the "utilitarian" approaches. He defines his concept as each individual's freedom to achieve a particular life.

As he puts it : "The expression [capability] was picked to represent the alternative combinations of things a person is able to do or be - the various 'functionings' he or she can achieve (…) Functionings represent parts of the state of a person – in particular the various things that he or she manages to do or be in leading a life. The capability of a person reflects the alternative combinations of functionings the person can achieve, and from which he or she can choose one collection. The approach is based on a view of living as a combination of various 'doings and beings', with quality of life to be assessed in terms of the capability to achieve valuable functionings" ("Capability and well-being", 1993, p. 31). In his last book, *Development as Freedom*, Sen explains that "a person's 'capability' refers to the alternative combinations of functionings that are feasible for her to achieve. Capability is thus a kind of freedom: the substantive freedom to achieve alternative functioning combinations (or, less formally put, the freedom to achieve various lifestyles)." (*Development as Freedom*, 1999, p. 74-75).

Just a variation of standard microeconomics

The theoretical approach proposed seems, at first sight, revolutionary. However, when Sen explicitly describes his system (particularly in *Commodities and Capabilities*, 1985), it becomes clear that it is just a variation of the mainstream approach. Instead of reasoning in terms of an n-dimensional space composed of “commodities” (goods or utilities), Sen proposes a space of “functionings”.

Sen starts from the standard model, and takes two steps. First, following an approach developed by Gorman (1959) and Lancaster (1966), he considers that it is useful to move to the space of the “characteristics” of goods, rather than that of the goods themselves. Second, Sen endows each individual with a set of “utilization functions” (reflecting what each individual can do or be with the characteristics of goods), and with a set of commodities (what he calls the ‘entitlement set’). The functionings of each individual will then depend on the choice of a particular commodity vector and of a utilisation function (see *Commodities and Capabilities* p. 11-14, and p. 26-27). The capability of each individual is then given by all the possible functionings an individual can achieve. The formal presentation of Sen’s system (by Sen himself) shows how similar it is with the standard model and contrasts sharply with his “literary” essays where he invokes his approach.

What are Amartya Sen’s contributions to post-autistic economics ?

I just don’t understand how this theoretical system (which contains many inconsistencies, which I shall not dwell upon here) can be considered as a contribution to post-autistic economics.

His empirical investigations

Some people seem to believe that the capability approach - as opposed to the standard approach - is particularly fruitful in empirical research. Yet, Sen (just like other neoclassical economists) never uses his theoretical construction when he examines concrete questions: he merely calculates correlations between certain basic indicators (such as life expectancy, literacy, infant mortality rates, etc…)

One does not really need his theoretical framework to carry out these investigations. And I have not found, in any of Sen’s publications, an empirical investigation that directly apprehends concrete economic and social issues using the “capability” concept.

Everyone knows that *illiteracy*, *sickness*, *short life expectancy*, *high infant mortality*, etc., should be eradicated because they impede people from leading good and happy lives. Sen seems to believe that by giving these evils more sophisticated names (“deprivation of basic capabilities”) some fundamental breakthrough is made in our understanding of the causes and remedies of these evils. At least that is the impression one gets in certain passages of his work. For example, in a book with Jean Drèze, it is said : “Poverty is, thus, ultimately a matter of ‘capability deprivation’, and note must be taken of that basic connexion not just at the conceptual level but also in economic investigations and in social or political analyses. This broader and more foundational view of poverty has to be kept in view while concentrating, as we often would in this monograph, on the deprivation of such basic capabilities as freedom to lead normal spans of life (undiminished by premature mortality), or the freedom to read or write (without being constrained by illiteracy).” (Drèze & Sen, *India: Economic Development and Social Opportunity*, 1995, p. 11).

His Introduction of Moral Philosophy into Economic analysis

Others may argue that although Sen has a “mainstream bias”, he nonetheless reintroduces philosophy in economic analysis. Although this is partly true, one may question Amartya Sen’s objectives in this domain by quoting Sen himself. In his last book, he says:

> In the absence of such imperfections (including the nonmarketability of some goods and services), classical models of general equilibrium have been used to demonstrate the merits of the market mechanism in achieving economic efficiency.

> (…) It is possible, however, to question whether the efficiency sought should not be accounted in terms of individual freedoms, rather than in utilities. (…) I have, in fact, demonstrated elsewhere [“Markets and Freedoms: achievements and limitations of the market mechanism in promoting individual freedoms”, in *Oxford Economic Papers*, 45 (1993), 519-541] that in terms of some plausible characterisations of substantive individual freedoms, an important part of the Arrow-Debreu efficiency result readily translates from the ‘space’ of utilities to that of individual freedoms, both in terms of freedom to choose commodity baskets and in terms of capabilities to function. In demonstrating the viability of this extension, similar assumptions are employed as are needed for the original Arrow Debreu results (such as the absence of non marketability). With these assumptions, it turns out that for a cogent characterisation of individual freedoms, a competitive market equilibrium guarantees that no one’s freedom can be increased any further while maintaining the freedom of everyone else. (…) The basic result about market efficiency can, in this sense, be extended to the perspective of substantive freedoms. (*Development as Freedom*, 1999, p. 117-119).

This excerpt clearly shows two things. First, it indicates that Sen (like most neoclassical theorists) confuses the highly centralized “general equilibrium model” with the completely decentralized “market mechanism”. Second, it shows that Sen indeed “introduces” some philosophical concepts into standard economics, but that he does not, however, depart from the mainstream approach. One may thus ask if he has enriched economics or if he has impoverished moral philosophy.

Sen and Mainstream Economics

Finally, I would like to highlight an important aspect of Sen’s vision: his faith in the future of standard economic analysis and his optimism concerning the direction in which it is being “enriched”, “broadened”, etc., making it more and more capable (if one believes Sen) of understanding (and proposing solutions for) economic and social problems. For example, in *Development as Freedom*, he affirms:

> The modelling of the market economy in the recent development literature has substantially broadened the rather limited assumptions made in the Arrow-Debreu formulation. It has particularly explored the importance of the economies of large scale, the role of knowledge, learning from experience, prevalence of monopolistic competition, the difficulties of coordination between different economic agents and the demands of long-run growth as opposed to static efficiency. On different aspect of these changes see Avinash Dixit and Joseph Stiglitz (…), Krugman (…) Romer (…) Lucas (…). These developments have very substantially enriched the understanding of the process of development and in particular the role and functioning of the market economy in that process. They have also clarified the insights of earlier economists on development. (*Development as Freedom*, 1999, note 12, p. 321).

Similarly, in a book that on India’s economic development, he declares :

> “Recent work on economic growth has also brought out sharply the role of labour and the so-called ‘human capital’. The economic roles of school education, learning by doing, technical progress, and even economies of large scale can all be seen as contributions – in different ways – to the centrality of human agency in generating economic expansion. In terms of economic theory, this shift in emphasis has provided one way of filling the large ‘residual’ that was identified in the basic neo-classical model of Solow (1956), and recent growth theory has done much to bring out the function of direct human agency in economic growth, over and above the contribution made through the accumulation of physical capital” (Dreze & Sen, *India, economic development and social opportunity*, p. 37).

Furthermore, the note relative to this quotation refers directly to very orthodox economists:

> "There is a vast literature in this field, beginning by Solow's own works that followed his 1956 model. For aspects of the recent revival of the subject, involving 'new' growth theory as well as further exploration of older neo-classical models see Romer (…), Krugman (…), Barro (…); Mankiw, Romer and Weil (…), Lucas (…)" (Dreze & Sen, *India, economic development and social opportunity*, 1995, note 16, p. 37).

These abstracts show clearly that Amartya Sen is not an opponent of the mainstream approach, and that, on the contrary, he considers these theories as constituting great progress in the understanding of concrete economic and social issues. In fact, Sen himself declared openly last year, in a conference organised by the OFCE (Observatoire Français des Conjonctures Economiques) : "I am a mainstream economist" (Conference: "Economic development and freedom", Paris, May 29, 2001)

The question thus remains open to debate: is Amartya Sen post-autistic ? I believe he isn't, but I am eager to know why heterodox economists constantly consider his theoretical approach as a real force for reform in economics.

References :

Drèze J. & Sen A.K., *India: Economic Development and Social Opportunity*, Oxford, Clarendon Press, 1995.
Sen A.K., "Capability and well-being", *The Quality of Life*, (Nussbaum & Sen eds.) Oxford, Clarendon Press, 1993.
---------- *Commodities and Capabilities*, Amsterdam, North Holland, 1985
---------- *Development as Freedom (1999)*, New York, Anchor Books, 2000

SUGGESTED CITATION:
Emmanuelle Benicourt, "Is Amartya Sen a Post-Autistic Economist?", ***post-autistic economics review***, issue no. 15, September 4, 2002, article 4. http://www.btinternet.com/~pae_news/review/issue15.htm

Towards a Realistic Epistemology for Economics

Claude Mouchot (Centre Walras, Université Lumière-Lyon2, France)

If there is one point on which all economists would agree, it is that they will never agree. And of course these disagreements have always existed. There was a time when we attributed them to the "youthfulness" of our discipline, but today we are forced to admit that economics will remain eternally "youthful". It therefore seems critical that we abandon this "youth" fable, as well as stop aiming for the unification of our discourse; a fable and an aim that arise from comparing economics to physics. That a century after Walras some of us still hold to the same epistemological position as he is, at the very least, surprising.

I wish to propose here a realistic epistemology for the "science of economics" that hopefully will enable us to explain our perpetual disagreements and thus the reasons why economics is pluralist.

In order to avoid the temptation to state the argument in terms of physics, let us begin by considering in the context of economics the following key sentence from Thomas Kuhn.

> Normal science . . . is predicated on the assumption that the scientific community knows what the world is like. (1970, p. 5)

One needs only to carefully re-read this sentence to realize that it will never be applicable to the world of economics nor to the social world in general. Economists will never agree on what the economic world is like, and partly because of what such an agreement would signify. It would mean that the ideological oppositions that have always run through the conceptions of man and society, the great visions of the world -- individualism / holism, liberalism / socialism, etc. -- would have disappeared. Now each of us is aware that repression of these oppositions is possible only by totalitarian means, and, moreover, the worst of their kind; a totalitarianism that, with no form of explicit violence, would prohibit even the very thought of the term ‘opposite’, given that the very notion of opposition would be nonexistent!

Therefore, since these oppositions are a part of society, it follows that economics will never be a “normal science” in T. S Kuhn’s sense of the words. The unification of economic theories will never be achieved, at least not in a democratic society. Hence it is necessary to abandon all reference to physics and to make a new effort to work out the epistemological status of our discipline.

Economics is a Totalité

Let us begin by considering two “classical” definitions of economics.

1. Economics is the study of humanity in the ordinary affairs of everyday life. (A. Marshall)
2. Economics is the science that studies human behaviour in relation to ends and scarce resources having alternative uses. (L. Robbins)

It is clear that both definitions define not just economics but also the entire social setting. The first definition includes, friendship, fatigue, pain, power, prestige, etc. and for many people even war. The second definition is no less general as it pertains to all finalized action, (Godelier pg. 19 – 20), and, moreover, is at the very foundation of the totalitarianism mentioned above.

But if on the other had one tries to narrow these definitions by in Marshall’s substituting “economic” for “ordinary” and in Robbin’s substituting “economic ends” for “ends”, then the definitions dissolve in obvious circularity.

The impossibility of separating the economic from the social, and the circularity of the definitions, (economics is economics) which result when this impossibility is ignored, illustrate the unfeasibility of defining economics. This fact can be summed up by one word: economics is a *Totalité*. Defining an object, involves distinguishing it from other aspects of reality, and one cannot distinguish an aspect of reality, if not from within the whole of which it is a part. The whole, on other hand, cannot be distinguished except to say that is the whole! Let us insist on the lack of a definition for the word ‘whole’. We have said that it sums up the problems posed by the proposed definitions for economics, but it does not resolves them. It only illustrates the impossibility of definition in this case.

Here we have more or less reached a cul-de-sac: economics is economics, and not much can be added to that. But of course it does not end here, as the existence of numerous economic theories proves.

Constructing Scientific Domains

> “a science sets out to adequately delimit the problems likely to define a field of research and on which a consensus can be reached……” (Piaget 1970, p 41)

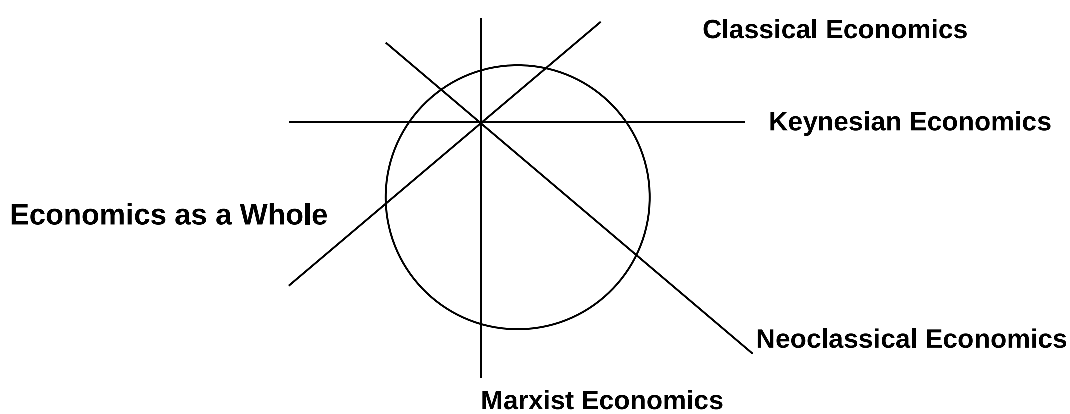
This simple sentence supports our proposition that “economics is not a science” and explains it further: given that economics remains undefined, it cannot as a whole be considered and accepted as a science. How then, should we go about effectively delimiting these problems so as to be able to constitute a domain that can be studied scientifically? My answer takes the form of identifying a necessary and sufficient condition:

> In order to develop a scientific discourse in economics, it is necessary and sufficient to privilege certain aspects of this *Totalité*, to distinguish the aspects that we wish to study, in other words, to define the object of study.

This condition is sufficient. For example, if I define my object as the study of how an individual allocates his income among different expenditure alternatives, I end up with the marginalist's consumer equilibrium theory. Or if I define it as the study of the conditions under which the division of income between wages and profits is made in a capitalist economy, I end up with a production cost theory, either neo-Ricardien or Marxist, depending on what further hypothesis are made.

This condition is also necessary. It follows from the demonstrated nature of *Totalité*. Economics is economics, and nothing more can be said about it without specifying the discourse, that is, without prioritising certain aspects of this whole. **All positive economic discourse is simply the expression of a certain point of view on economic reality, a point of view that consists of defining an object within a whole and constructing for this object a scientific theory.**

All the major approaches to economics involve the construction of a scientific object focused on a particular aspect of the whole. Therefore, classical, neoclassical, Marxist, and Keynesian theories, are sciences highlighting certain aspects of economic reality, while equally neglecting others. We may say that each of these sciences "cuts out" its object within the whole of the social and economic reality. This can be represented diagrammatically as follows:



Each theory neglects certain aspects of reality:

- The Keynesian theory has no means of explaining value.
- Classical and Marxist theories fail to account for market prices (apart from what can be explained from simple common sense according to which market prices depend on the interaction between supply and demand).
- "this theory [neoclassical] lacks a simple answer to the question: Why are salaries and profits what they are? This is an interesting issue when we are considering the allocation of revenue amongst social classes, and these social classes are not variables that can be explained by the neoclassical theory." (Hahn 1972)

- The phenomena of power - more or less taken into account by Keynes (Real demand is the actual power held by entrepreneurs to reach an equilibrium characterised by underemployment.) and by Marx (the struggle of classes) - do not exist in the classical theory and are explicitly rejected by the neoclassical theory (all agents are equal).

Finally, one should note that each of these theories prioritises certain aspects of reality at the expense of others, constituting *ipso facto* an ideological characteristic: partisans of these theories did not choose them for 'objective' reasons in the natural sciences' meaning of this word, rather they chose them because they reflected the political values that they themselves were in favour of.

You will have noticed that in the preceding diagram, all the theories intersect at the same point, this being the economic situation under consideration. Furthermore, it is my contention that these theories have one characteristic in common: although they privilege different logics, each describes an aspect of every economic situation. For example, all the theories have elements for explaining the current unemployment condition in France. Is it not E. Malinvaud who thinks this unemployment is partly classical and partly Keynesian?

To accept this is also to accept that the logic of a theory ends where that of another begins. Consequently, if we prioritise one logic over another and insist on pushing it to its limits, we end up with absurdities, in theory as well as in practice. For examples:

- It is impossible to reject the consumer's utility maximisation hypothesis because in a market economy the consumer's equilibrium clearly represents an aspect of his/her behaviour. But when pushed to its theoretical limits it logically leads to a general equilibrium which, however, can never exist in economic reality. And if pushed to its practical limits, it gives rise paranoid financial markets.
- It is impossible to reject J. M Keynes logic on effective demand. But if pushed to its limits it would give rise to a constant increase in inflation rates, as well as to the return of hyper– liberalism.
- It is impossible to reject the Marxist logic according to which the structure of the system of production, the relations of production that determine "the places and functions in which the individuals are but only the occupants". The French production system has a shortage of over two million places and functions. But pushed to the limit, this logic theoretically gives rise to an eternal structure and to what in practice would amount to communism.

Thus, each theory illuminates only one aspect of reality, and each theory should allow a place for other theories to succeed which will illuminate other aspects of reality. The challenge then becomes the harmonisation of these numerous theories.

Finding a common structure for these discourses

The impossibility of a logical harmonization

Talking about the logical harmonization of two or more theories, means synthesizing them into one main theory that encompasses them all. Within this main theory, the constituent theories would be considered as special cases, arising for instance, within certain specified parameters. However, such a harmonization is not possible.

This impossibility has been historically proven: the multiplicity of economic theories is itself a form of concrete proof. If their logical harmonisation were possible, we would at least expect that some of the theories would have been unified. This impossibility is also inscribed within the very idea that we are proposing, i.e., that of economics being a Whole within which each theory constructs its very own scientific object. The results obtained will no doubt depend on the constructed object, and there is no reason whatsoever why they should hold true for the objects of other theories.

The possibility of having contradictory results is, indeed, very high. A good example is that of excess supply in the market. Before the Keynesian period, economists claimed that lowering prices was all it took to attain market equilibrium, be it the market of a particular good or the global market. But although true in the former case (micro), it sometimes proved false in the latter case (macro), even if each producer behaved “rationally” by lowering the price. This is an example of how sometimes decisions taken by a group of rational individuals can lead to global irrationality.

Diverging scientific objects, disjointed theories, partial discourses, disharmonious and at times contradictory logic -- despite all these, we still have to continue. And so to explain and understand the economic reality as well as act on it, it is necessary for us to harmonize the different discourses in question. Given that logical harmonization is impossible, we need to find other means of harmonizing these theories.

A reasonable harmonisation

Given that we already have access to an abundant literature on the current economic reality, as well as the desire to act on it, how then can we harmonize the numerous different theories in the absence of all other forms of unification?

All economic policy seeks to modify reality and, in principle, to modify it in a precise direction with a view to realizing the particular values -- solidarity, justice, equality, etc. -- that each individual regards as “good reasons” for acting. Of course it goes without saying that wanting something and the ability to have it are two different things. Therefore, we still need to find mechanisms that will enable us to create a “better” reality (with respect to the values we hold); hence the necessity of a coherent analysis of the situation to be modified.

It is precisely at this point that the multiplicity of theories poses a problem: faced with different explanations, it is evident that one explanation and only one has to be chosen over the rest. If not, the actions taken may prove totally ineffective, like accelerating and breaking simultaneously. So what should be the criteria for this choice?

Let’s review what was said earlier. In principle what we are saying is that whatever the concrete economic problem under consideration (unemployment for instance), it can be explained within a number of different logical structures, belonging to different theories. Consequently, the choice of criteria although easy in the abstract may be difficult to implement in reality. The politician considers and attempts to understand today’s dominate logic as it pertains to the real world situation under consideration, so as to decide according to that logic the measures to be undertaken. But the currently dominate theory may not fit the current situation. For example, the current talk in favour of supply-side oriented policies aimed at increasing investment makes no sense today in France where both personal saving and the self-financing of business enterprises are very high.

Good reasons, careful consideration, decision making, choice of policy, temporary conclusions (because tomorrow, today’s conclusions will be revised as the dominate logic will not be the same); this set of elements defines what ‘reason’ means, way beyond and above simple rationality, and takes into full account individual freedom which, though limited, is part of the reality that enables man to confront reality.

I have tried to clarify the reasons as to why economists perpetually differ in opinion. I have noted that each economist chooses the theory that supports the values that (s)he holds. It therefore follows that these differences of opinion among economists are only the reflections of the underlying political dispute. Our discipline, being far removed from the scientific status of the natural sciences and whose limits have been revealed, ought to be re-named "Political Economics".

References

Hahn, Frank (1972), *The Shares of Wages in National Income : an Inquiry into the Theory of Distribution*, London, Weidenfeld and Nicolson.
Kuhn, Thomas (1970), *The Structure of Scientific Revolutions*. Chicago: University of Chicago Press.
Mouchot, Claude (1996), *Méthodologie économique*, Paris, Hachette.
Piaget, J. (1970), *Épistémologie des sciences de l'homme*, Paris, Gallimard.

SUGGESTED CITATION:
Claude Mouchot, "Towards a Realistic Epistemology for Economics", ***post-autistic economics review***, issue no. 15, September 4, 2002, article 5. http://www.btinternet.com/~pae_news/review/issue15.htm

The Economist's Long Farewell

Robert E. Lane (Yale University, USA)

"Farewell! A long farewell to all my greatness."
Cardinal Wolsey, *Henry VIII* (III, ii)

Introduction

Adam (an economist named after Adam Smith [1723-1790]) and Desiderius (a humanist-social scientist named after Desiderius Erasmus [1466-1536]) are having lunch in a local restaurant while discussing the merits and social costs of materialism. They are friends, of a sort. We find them in the midst of an argument. Of course, Adam calls Desiderius "Dessie" and we shall do the same.

"So what is wrong with materialism?" asked Adam, wiping his material lips with a material napkin -- or at least a modestly material paper napkin.

Dessie knocked on wood to invoke the gods of chance to protect him from violating the laws of nature. "I want to talk about materialism as a set of beliefs and values, the source of economic man's alleged behavior, not the metaphysical or historical variants."

"Please get on with it," said Adam as though he were asking an executioner not to delay any further.

"Good economists," said Dessie, "have always believed that the bundle of goods people demand changes as their income levels rise: e.g., a smaller proportion of their income is spent on food and shelter and a larger proportion on travel and entertainment and education -- and saving. The only thing that economists, except for Tibor Scitovsky,[i] have not already noticed is that the goods people in a rich society want are those that are not to be purchased in the market like family felicity and friendship.

"So" asked Adam, "why is your dinner less important than family felicity and friendships?"

"We can't compare them until we know whether or not you have had your dinner. Your namesake, Adam Smith assumed it was dinner time when he talked about the dominance of material self-interest,[ii] and for many people in the 18th century dinner time came more often than did dinner. I am only reciting economists' theory of declining marginal utility. In capsule form, if you are hungry, dinner has a higher priority; if (after dinner), you are lonely, friendships are more desirable." By comparison, he thought, explaining why two and two make four would be a deep exercise.

"All right," said Adam somewhat mortified, "but you are not talking simply about a change in the goods people prefer; you are talking about a systematic shift in values; what do you call your new system? 'The New Humanism'? And you want to contrast this new system with an old one, one that economists call a 'market economy' and that you call, much less precisely, 'materialism'. Aside from substituting a preference for people over commodities, as you might say, what is the difference between the two systems?"

"You brush aside the crucial point -- but one thing at a time," said Dessie. "You chaps are always talking about margins, so now I propose a marginal decline in materialism with the slack taken up by a marginal increase in the humanistic motives and activities such as friendship and an intrinsic interest in work. Because the data suggest that further increases in GDP per capita in rich countries do not contribute much to happiness,[iii] a strict utilitarian analysis suggests this marginal change from pursuit of money to pursuit of companionship or other intrinsic goals. But note that this marginal change is utility-efficient only after that point where the utility of one more dollar is the same as, say, one more friend. We have passed that point in the US: number of friends is a better predictor of happiness than is number of dollars possessed."[iv]

"If materialism is necessary for growth," Adam said, "then the lack of materialism implies a static economy and more poverty. It is you who seem to favor a loss of well-being."

"The set of meanings I want to explore," said Dessie ignoring the criticism, "lie in a measure of materialist attitudes in a consumer society. We are not pioneers creating our own maps of unexplored terrain. Others have been here before us. For example, Marsha Richins and Scott Dawson have developed a measure of materialism that deals with three aspects of the concept: (1) 'acquisition centrality,' meaning that 'materialists place possessions and their acquisition at the center of their lives.' (2) acquisition and possession of things as the central route to happiness, that is, materialists 'see possessions and acquisition as essential to their satisfaction and well-being;' and (3) success is defined in terms of material things: 'Materialists tend to judge their own and others' success by the number and quality of possessions accumulated.' Technically, these three elements represent three independent factors in their factor analysis of a broad range of eighteen questions. To measure the first factor, they ask, *inter alia,* whether the following is generally true for the respondent: 'Buying things gives me a lot of pleasure.' To measure the happiness dimension they invite responses to: 'It sometimes bothers me quite a bit that I can't afford to buy all the things I'd like.' And to test the third dimension dealing with success they ask agreement or disagreement with the proposition: 'Some of the most important achievements in life include acquiring material possessions.'[v]

"You're stacking the deck by your definitions -- a formal rhetorical error," said Adam. "Here is young Albert starting out in life; he is married and has two small children; he has to pay for shelter, food, clothing and medical care for his family; he should save something lest his job fail and, in any event, for his children's education. Because he cares a lot about money, you call him a materialist and put him down. It isn't fair." Adam seemed to suffer vicariously for Albert.

"We are not talking about the priority of needs,"[vi] said Dessie. "I agree with you and, as it happens with Marx who said someplace: 'We must eat before we think.' But that is true of people with a variety of motives and points of view. It will be more fruitful if we focus on Richins and Dawson's conceptualization of materialist beliefs and motives."

“All right,” said Adam, “but I still don't see what's wrong with emphasizing material acquisitions. Albert, our young father just starting out, did. And what is wrong with agreeing with the vast majority of Americans: those who ‘make it’ financially have, indeed, succeeded?”

“As a matter of fact,” said Dessie wearing his social science hat, “what Americans think of when they think of materialism is: ‘status display,’ seeking ‘wealth for its own sake;’ and people who are ‘predisposed toward money, wealth, innovations, and the possessions of others’.[vii] So Albert and the rest of us working stiffs may or may not be a materialist, but an interest in earning a living is neither here nor there.” Dessie felt things were going better.

“So now you have a definition and a measure; how does this help us understand the costs of the materialism that makes us rich?” asked Adam weary of distinctions in what had always seemed like a straightforward natural preference for a fungible currency that bought so many pleasures. But Dessie was off on another tack.

The Dark Side of Materialism

“First, materialists are less generous than others,” said Dessie counting on his fingers. Richins and Dawson offered their subjects a hypothetical $20,000 windfall and asked them how they would spend it. As it turned out: ‘materialists would spend three times as much on themselves, would contribute less to charity or church, give less than half as much to friends and family.’ Materialism scores were negatively correlated with support for a specific environmental charity. Compared to others, materialists also reported that they do not like to lend things to their friends and that they do not like to have guests in their homes.[viii]

“Second, materialists are more invidious than others, especially but not exclusively when they compare themselves with those who are richer than they are.[ix] ‘Materialists tend to judge their own and others' success by the number and quality of possessions accumulated.’ They value these things more than they value their relationships to other people.[x] This may be because of lack of interest in people, a matter of taste -- or because of the lack of social skills that haunts these thing-minded people.”

“Third, materialists seem to be more difficult to satisfy; they report that they need higher incomes than those low in materialism.[xi] More than others, they are dissatisfied with their lives. As Durkheim prophesied, empirical studies find that: “Although materialists expect acquisition to make them happy, ... the lust for goods can be insatiable: the pleasures of a new acquisition are quickly forgotten and replaced with a desire for more.”[xii]

“The consequence of all this,” said Dessie, using his hands to wield his fork instead of for counting the points he was making, “is that materialists are significantly less happy than are nonmaterialists: in the Richins and Dawson study, materialism was negatively related “to satisfaction in all the aspects of life measured:” amount of fun you are having (note they are not hedonists), income and standard of living, friends, and even (modestly) with satisfaction with family life.”[xiii] These findings are not idiosyncratic; another study including young people drawn from outside college life found the same thing.[xiv]

“The invisible hand is thumbing its nose at you, Dessie,” said Adam in a jocular tone. As you might have guessed, it isn't the fact that people want money but *why* they want it that influences their happiness. From a study of 260 business students, we know that economic motives include security in old age, current family support, charity (sic!), and personal motives such as relieving self-doubt. Those who sought money for its own sake or because of pride and vanity were, at you might expect, unhappier than others. Those who sought money for such purposes as family support and charity were as happy as anybody else, normally happy.[xv] I just can't believe" he continued, "that the hard working people that brought us this wealth (he looked around at the restaurant's imitation leather and Coca Cola clock -- and looked away) can have created so much prosperity while suffering the pains of the materialism you describe."

"Remember," said Dessie, that we are not talking about Frank Knight's 'most noble and sensitive characters,' who are condemned 'to lead unhappy and futile lives'[xvi] because they are nonmaterialists; we are talking about the unhappiness of perfect fits: materialists in a material civilization. Moreover, 'placing money high in the rank ordering [of personal goals] was associated with less vitality, more depression and more anxiety.' For adolescents, 'high ratings of the importance of financial success was related to lower global functioning, lower social productivity, and more behavior problems.'[xvii]

"Are you sure you are not letting your distaste for economic man (or is it economist men?) bias your account of materialism?" asked Adam who was used to criticisms of the market on ethical ground but never on hedonic grounds. " If it is the materialists who have brought prosperity to the world, why do people think it is an amoral set of attitudes and beliefs?"

Does Materialism Crowd Out Moral and Intrinsic Motives?

"I always thought materialism was the butt of criticisms by moralizers," Adam continued, "not hedonists. But I should remind you that moral economics in its incarnation as Christian economics did not rescue the developing countries of Europe from their poverty and, well, their 'backwardness' in the Middle Ages."

"OK," said Dessie, "will you agree that if people's material self-interest dominates choices in the presence of monetary appeals and wanes when community service or other 'intrinsic' appeals are made salient, that materialism can be said to 'crowd out' non-material, often moral appeals?

"We are back to Stigler's proposition that in any test, material self-interest will win over non-material appeals,"[xviii] said Adam.

"Ah ha, but this time the research is by economists!" said Dessie, triumphantly. "Consider why people pay taxes under circumstances where the chance of being caught cheating is trivial. Will you agree that the only plausible explanation is that they are responsive to community ethical norms, that is, that ethical norms dominate material self-interest in these circumstances?"[xix]

"Economists never claimed that material self-interest dominates *all* other interests, such as maternal love, under *all* circumstances. They are talking about market situations," said Adam, slightly annoyed.

"OK, then," said Dessie, "consider the case of attitudes toward depositing nuclear waste in a person's own commune in Switzerland: When *not* offered a collective payment, a majority supported it as a civic duty even though they knew the hazards in such waste in their own backyards, but when offered a subsidy, far fewer people accepted the risk. This was not because the offer of money changed the perception of the risk.[xx] Incidentally," he continued, "this redefinition of the situation has been found to occur in individual cases in the United States, as well. Experiments find that people are more likely to volunteer to give blood if they are *not* paid than if a payment is offered."[xxi]

"OK, so ethics and identification with community may sometimes crowd out material motives and material motives can crown out ethical and intrinsic motives," said Adam, hoping to limit the damage to a few extraordinary situations. "What does that prove?"

"Well," said Dessie, "this Zurich crowding out research certainty suggests that as a dominant *gestalt,* materialism shapes motives and values and crowds out competing one's wherever the competition is less forceful. If you will allow me to personify and dramatize, I see an eternal struggle between THE MATERIALIST seeking gratification of various acquisitive wants, and THE HUMANIST seeking competing gratification of a different set of wants. In a relatively unrelieved materialist culture it is not surprising that MATERIALISM wins. We stack the cards in its favor." Dessie hardly noticed the mixed metaphors.

Adam was tempted to say that nature stacked the cards and that this was what Darwin was saying in different terms, but the Darwinist defense of the market was not one he wanted to try against Dessie. He could see that he was not making any progress on this theme of competing material and nonmaterial motives. He knew that the next step was an inquiry into how much economists had to be paid to publish in the better journals[xxii] or, worse, whether economic students were more selfish than others (he was familiar with the Marwell and Ames study showing that they were),[xxiii] and decided it was time to leave this topic. He remembered that wicked little verse aimed at an English professor by Hicks -- not John, but Granville -- at Harvard so long ago:

When some men achieve a mild success
They think of spirit more, and matter less.
And as they wiser grow, wiser and fatter,
They scold the common herd who worship matter.

"I have satisfied my material needs," he said looking at his empty soup bowl, "and my friendship needs." He paused as he put his jacket on. "But intellectually, I need more nourishment."

Notes

[1] Tibor Scitovsky. 1977. *The Joyless Economy: An Inquiry into Human Satisfaction and Consumer Dissatisfaction.* New York: Oxford University Press.
[ii] Adam Smith. 1937 [1776] *An Inquiry into the Nature and Causes of The Wealth of Nations,* Edwin Caanan, ed. New York: Modern Library/Random House, p. 14.
[iii] Ed Diener and Robert Biswas-Diener. 2002. "Will Money Increase Subjective Well-Being? A Literature Review and Guide to Needed Research," *Social Indicators Research.* 57: 119-169.
[iv] Angus Campbell, Philip E. Converse, and Willard L. Rodgers. 1976. *The Quality of American Life.* New York: Russell Sage, p. 380.
[vi] Marsha L. Richins and Scott Dawson. 1992. "A Consumer Values Orientation for Materialism and its Measurement: Scale Development and Validation," *Journal of Consumer Research.* 19: 303-316 at 308-309.
[vi] See Abraham H. Maslow. 1970. *Motivation and Personality,* 2nd ed. New York: Harper & Row.
[vii] Susan Fournier and Marsha L. Richins. 1991. "Some Theoretical and Popular Notions Concerning Materialism," *Journal of Social Behavior & Personality.* 6: 403-414 at p. 403.
[viii] Richins and Dawson, "A Consumer Values Orientation for Materialism," pp. 312-313.
[ix] Russell W. Belk. 1985. "Materialism: Trait Aspects of Living in a Material World," *Journal of Consumer Research,* 12: 265-280.
[x] Richins and Dawson, "A Consumer Values Orientation for Materialism," pp. 304, 308.
[xi] Ibid., p. 311.
[xii] Ibid., p. 308.
[xiii] Ibid., p. 313.
[xiv] Tim Kasser and Richard Ryan. 1996. "Further Examining the American Dream: Differential Correlates of Intrinsic and Extrinsic Goals," *Personality and Social Psychology Bulletin,* 22: 280-287 at p. 280.
[xv] Abhishek Srivastava, Edwin A. Locke, and Kathryn A. Bartol. 2001. "Money and Subjective Well-Being: It's not the Money, It's the Motive," *Journal of Personality and Social Psychology,* 80: 959-971
[xvi] Frank Knight. 1935. *The Ethics of Competition and other Essays.* New York: Augustus M. Kelley, p. 66
[xvii] Tim Kasser and Richard M. Ryan. 1993. "A Dark Side of the American Dream: Correlates of Financial Success as a Central Life Aspiration," *Journal of Personality and Social Psychology,* 65: 410-422 at pp. 417, 419.
[xviii] George J. Stigler. 1981. "Economics or Ethics?" In S. McMurrin, ed., *Tanner Lectures on Human Values,* vol. II. Cambridge: Cambridge University Press, p. 176.

[xix] Bruno S. Frey. 1998. "Institutions and Morale: The Crowding Out Effect." In Avner Ben-Ner and Louis Putterman, eds., *Economics, Values, and Organization.* New York: Cambridge University Press, 437-460.
[xx] Ibid., pp. 448-454.
[xxi] W. Upton, *Altruism, Attribution, and Intrinsic Motivation in the Recruitment of Blood Donors* (Doctoral dissertation, Cornell University, 1973). Reported in John Condry and James Chambers, "Intrinsic Motivation and the Process of Learning." In Mark R. Lepper and David Greene, eds. 1978. *The Hidden Costs of Rewards: New Perspectives on the Psychology of Human Motivation.* Hillsdale,NJ: Wiley/ Erlbaum, p. 71
[xxii] Stigler does not report the effect of payment on economists' behavior but he does say that they cultivate ideas which find a market (pp. 32-33), producing what people desire (p. 63), and preach what society wants to hear (p.33). See George J. Stigler. 1982. *The Economist as Preacher and Other Essays.* Chicago: University of Chicago Press.
[xxiii] Gerald Marwell and Ruth Ames. 1981. "Economists Free Ride. Does anyone Else?" *Journal of Public Economics,* 15: 259-310. Apparently Adam was not familiar with further contrary evidence in T. D. Stanley and Ume Tran. 1998. "Economics Students Need not be Greedy: Fairness and the Ultimatum Game," *Journal of Socio-Economics,* 27: 657-664; Amanda Bennett. 1995. "Economics Students Aren't Selfish; They're Just Not Entirely Honest." *Wall Street Journal,* January 18, 1995, B1.

Prof. Lane's most recent book is The Loss of Happiness in Market Democracies. For contacting, please use: Robert E. Lane, 558 Chapel Street, New Haven, CT 06511, USA or robert.lane@yale.edu

SUGGESTED CITATION:
Robert E. Lane, "The Economist's Long Farewell", ***post-autistic economics review***, issue no. 15, September 4, 2002, article 6. http://www.btinternet.com/~pae_news/review/issue15.htm

---

Extension of deadline for papers for all-student issue

The *post-autistic economics review* is planning a special all-student issue. It will include between 6 and 9 essays, 2,000 words or less, dealing with the need and ways to reform economics and economics teaching. Submissions not chosen for the review but of suitable quality will be posted on a permanent section of www.paecon.net**.** Graduate and undergraduate students are eligible. Submissions should be sent as an email Word attachment to pae_news@btinternet.com The deadline for submissions has been extended to November 15, 2002.

In the next issue (October) articles by James Devine, Steve Fleetwood, Robert Heilbroner, William Milberg, Jamie Morgan and Richard Wolf.

Proposals and suggestions for articles should be sent to the editor at pae_news@btinternet.com

---

Subscriptions to this email journal are free.

Subscribe a colleague(s) to this journal by sending their email address to
pae_news@btinternet.com

Back issues of this journal and other material related to the pae movement are available at **www.paecon.net** And also **GEN** , for global economic news (updated daily), analysis, opinion, and special reports.

To subscribe to this journal, send an email with the message "subscribe" to
pae_news@btinternet.com

To unsubscribe to this journal, send an email with the message "unsubscribe" to
pae_news@btinternet.com