THE END OF ECONOMIC MAN

George P. Brockway

Author of *Economists Can Be Bad for Your Health*

THIRD EDITION

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Principles of Any Future Economics

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To the absent members

Contents

Preface

economic man. *Econ.* A hypothetical man supposed to be free from altruistic sentiments and motives interfering with a purely selfish pursuit of wealth and its enjoyment.

— *Webster's New International Dictionary,* Second Edition

To be fully human in the Renaissance, one had to participate in the rediscovery and rebirth of the ancient world. To be fully human today, one must be not only doctor, lawyer, or Indian chief but also a free, recognized, and responsible actor in the economic world.

Ironically, however, economic man—the ideal economic agent—is not free and responsible. He is possessed by one idea: his own material gain. He is a fanatic. He is a madman. He is selfishness incarnate. He is a self-contradictory role model for the newly liberated.

It is probably safe to say that no actual person, living or dead (as the disclaimer reads at the start of a novel), is truly an economic man. W. C. Fields said that no man who hates dogs and children is all bad, but economic man is all selfishness. He must be so, in order to perform his function. Whenever standard economics faces a problem, it looks to economic man for the answer. The monomaniacal monster reveals what he'd do in the circumstances. Most of the so-called laws of economics have been deduced from his consistently self-serving behavior. Or, as Arrow and Hahn put it more elegantly, "it is supposed, in the main, that . . . the choices of economic agents can be deduced from certain axioms of rationality."[1] These economic agents have been an organizing principle of standard economics, as mass and energy are organizing principles of physics, or as point and extension are organizing principles of geometry.

Monomaniacs reify their manias. Thus economics has come to concern itself with things—resources, the gross national product, the bottom line—rather than with people. In any future economics this concern will be reversed. Human beings will be more important than things, and what Carlyle quite properly called the dismal science will take on a new and humane aspect.

Woody Allen was less cynical than he thought when he said that economics is about money and why it is good. Money is something that everyone handles every day. The modern world would not have developed had not money radically changed and developed, too, so that it is quite different from what it seemed to be only a hundred years ago. Money is widely misunderstood, and not merely by the proverbial man and woman in the street but by those politicians, business leaders, bankers, journalists, and economists whose semi-archaic ideas currently influence public opinion. Therefore money runs throughout this book, besides claiming a chapter for itself, one for price (which is stated in terms of money), one for capital (which is what you save money for), one for interest (which is the fee for using somebody else's money), one for inflation (which is something that can happen when things are done wrong), and one for the natural rate of unemployment (which is probably as barbarously wrong as economics can get).

The crucial chapter in the book is the fourth, which makes the point that in the real world, prices—including wages and interest rates—are set and accepted by human beings, not by Adam Smith's "invisible hand" or by the law of supply and demand or any other "law." Once this simple and obvious point is understood, it is possible to move on to the study of economics as one of the "moral sciences," which consider the proper conduct of life. It does not follow that rejection of this point would make economics one of the "natural sciences." There is no point of

1. Kenneth J. Arrow and F. H. Hahn, *General Competitive Analysis* (San Francisco: Holden-Day, 1971), p. v.

view from which the solar system can be criticized; but if any economics system cannot be criticized, economics is an empty pastime.

Although far broader and more systematic, this book necessarily covers some of the same ground as my earlier book (*Economics: What Went Wrong and Why and Some Things To Do about It*) and, in order to stand alone, repeats some of that material. A few especially technical or polemical questions are relegated to the appendixes.

Economics deals with ordinary, everyday affairs of ordinary, everyday people and should be written about, in so far as possible, in ordinary, everyday language. A few terms are nevertheless of such importance that I call particular attention to them. *Speculation* and *planned profit* are specially defined where they first appear. *Opportunity cost* ("perhaps the most fundamental concept in economics," according to the *MIT Dictionary of Modern Economics*) is, I trust, generally clear from its context.

As I have said on many other occasions, there is no idea presented here that is not directly or indirectly due to the teaching of the late Professor John William Miller of Williams College. Even turns of phrase and sentence rhythms are often his, as readers of the five volumes of his published essays will recognize. In addition, much of the material covered was discussed with him in person or by correspondence. I make no claim that he would have supported what I have written, but my indebtedness to him is impossible to overstate.

I am also greatly indebted to Myron Kolatch, executive editor of *The New Leader,* who has, for more than ten years, given me access to an alert and responsive audience. Other editors who have kindly given me permission to use material I originally published in their pages are those of the *Journal of Post Keynesian Economics, Journal of Economic Issues, Challenge,* the *New York Times,* and *Washington Monthly.* Much of the material in Chapter 2 and Appendix C was included in a paper presented before a conference at Notre Dame University and published in Oliver F. Williams, Frank K. Reilly, and John W. Houck, eds., *Ethics and the Investment Industry* (Savage, Md.: Rowan and Littlefield, 1989). Much of Chapters 4 and 15 and Appendix I

was presented before a conference at Brigham Young University. And much of Chapters 13 and 16 was presented before a colloquium at the University of Tennessee. I am grateful to the universities for the invitations to participate in the conferences and for permission to reuse some of my material here.

In the best tradition of scholarship, many professionals in several fields have been generous with information, advice, caution, and encouragement, even on points with which they disagreed. In particular, Professors Robert Averitt, E. Ray Canterbery, and Raymond Richman each read and commented on a complete draft of the manuscript; and Alex J. Pollock and Professor David Colander made valuable comments on the first edition of the book. I have tried to have the wit to benefit from their criticisms and, of course, absolve them of all responsibility for the result.

Having served a term as a publisher myself, and having thus experienced at first hand the unreasonableness of authors, I am especially appreciative of the patient understanding and support of my old friend Simon Michael Bessie and his assistants Amy Gash and Miranda Book, and thanks are due Wendy Almeleh, my long-suffering copyeditor.

The revised edition of the book owes much to Otto Sonntag, its copyeditor, who saved me from many errors. My old colleagues at W. W. Norton & Company—Donald S. Lamm, Candace Watt, Drake McFeely, Nancy Palmquist, Marjorie Flock, and Andrew Marasia—were unfailingly helpful and good-humored. I salute them with old affection.

The penultimate draft of the manuscript was typed (word processed?) by Karen Lee Carey, who, as it happens, is a direct descendant of Sir William Petty, the founder of economic statistics referred to in Chapter 2.

Mary Platt, research librarian of the Chappaqua Public Library, performed expeditious miracles in getting books and journal articles for me.

Unless otherwise noted, all the statistics herein either come from or are based on *Economic Report of the President, Statistical Abstracts of the United States,* or National Income and Product Accounts in *Survey of Current Business.*

The index was prepared by Joan Haladay and S. W. Cohen and revised by the author.

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Psychology

The Three Antinomies of Greed

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Economics is the study of the principles whereby people exchange money for goods and services.

Like all definitions, the foregoing is only a starting point. It also implies limits; economics is not all of life. Some may object that the definition excludes many topics that recognized economists often discuss. Barter is an example. Adam Smith, in fact, placed a propensity to barter at the very *fons et origo* of the discipline. Yet there is no proposition in any system of economics—classical, neoclassical, or whatever—that is clarified by a consideration of barter, while there are many that are confused thereby. This is not to deny that almost everyone occasionally engages in barter, or that in some parts of the world or on some levels of society or at some times, barter is or has been the dominant system; and it emphatically is not to imply that the lives lived in those places and times were or are unworthy of being lived or being studied. The point is merely that the modern world does not and could not run on barter, and no future economics will run on barter.

Of the words in the definition, "people" is obviously the most important. But Adam Smith took the wealth of nations for his subject, and modern schools concentrate on the gross national product or on a putative equilibrium or on the techniques of allocating resources to satisfy personal preferences.

I think I need offer only a bare suggestion of why I propose such a sharp break with the recent past. In the early 1980s, when upwards of fourteen million men and women in the United States were unemployed, and there was much debate about whether we were in a recession or a depression and how to end whatever it was, public attention was lavished on statistics supposed to indicate when recovery was finally under way. Among the "indicators," the rate of unemployment was understandably included. But this rate was, curiously, a "lagging" indicator. That is to say, contemporary economics held that something entitled to be called a recovery could be achieved leaving 6 or 8 or even 12 percent of our work force unemployed. Furthermore, it was widely insisted that at least 6 percent must always be unemployed if inflation was to be controlled.

An economics that regards several million people as of less importance than some level of prices will clearly differ in substantial ways from an economics that holds that full and just employment of men and women is a central economic problem.

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All the great economists have relied on what they call psychology. Adam Smith opened his first book, *The Theory of Moral Sentiments,* with this sentence: "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it."[1] Although he used the word "evidently," he produced no evidence; yet he went on to base the theory of his book on the principles in man's "nature" that he no doubt sincerely believed he had discovered.

John Maynard Keynes followed in his train. At a crucial point in *The General Theory of Employment, Interest and Money,* he wrote, "The fundamental psychological law, upon which we are entitled to depend with great confidence both *a priori* from our knowledge of human nature and from the detailed facts of expe-

1. Adam Smith, *The Theory of Moral Sentiments* (Oxford: Oxford University Press, 1976), p. 9.