3 MAINSTREAM ECONOMICS

We have arrived at *economics*, even though this is a book about *politics*. Therefore, lest we forget, here again is the overall objective. In our populist age, some political scientists should start paying special attention to a matter that I have not yet explicated, but which I have already described several times as the *destruction* caused by what economists call creative destruction.

To get closer to understanding that mission and why it is essential, we need now to consider two faces of economics. In this chapter, I will discuss how economists persuasively define themselves as social scientists with a distinctive and effective way of looking at human affairs. In the next chapter, I will explore the central recommendation, in favor of ceaseless economic growth via creative destruction, that economists offer to their students and the public, which those people generally accept, but which is so unsatisfactory as to contribute substantially to why we are now enduring populist difficulties.

Mainstream Economics

We may start with the nature of economics as a scholarly enterprise. This is a complicated business, so please bear with me while I begin by considering "mainstream economics."

The first thing we need to understand is that the term "mainstream economics" refers to what most professors of economics believe and is therefore used to describe conventional thinking in their Temple of Science column. Specifically, what mainstream economics projects is a persuasive set of *assumptions*

Published online by Cambridge University Press

that are used to justify powerful *teachings*. Most American economists endorse at least the assumptions I will describe in a moment. Furthermore, many endorse a certain collection of teachings that they regard as flowing from those assumptions, and that we will eventually see are usually more in favor of competitive capitalism than of democratic socialism.[99]

The vocabulary here is problematic. Thus "mainstream economics" is a term used by many writers to describe what they consider to be the central thrust of economics. This they do, for example, in books by journalists like Jeff Madrick and economists like Juliet Schor.[100] However, in other sources, mainstream economics is named differently. Thus economists Avner Offer and Gabriel Soderberg refer to "core doctrines of economics,[101] economists Joe Earle, Cahal Moran, and Zach Ward-Perkins reject what they call "neoclassical" economics,[102] think-tanker Dean Baker criticizes "standard economics,"[103] and political scientist Jonas Pontusson postulates an "economic orthodoxy" that he calls "the market-liberal view."[104]

Now, if mainstream economics is conventional – that is, inside the box of economics overall[105] – how many economists belong or do not belong to the mainstream? Knowledgeable sources dodge this question and speak approximately, which is not surprising because there are around 20,000 members of the American Economic Association and they are not formally bound by a professional template. Thus, Nobel Prize winner (economics, 2001) Joseph Stiglitz writes that, "As we peel back the layers of 'what went wrong' [in the Crash of 2008], we cannot escape looking at the economics profession. Of course, not all economists joined in the jubilation of free market economics; not all were disciples of Milton Friedman – a surprisingly large fraction, though, leaned in that direction."[106]

Furthermore, if there really is a "mainstream" in economics, how can that be so when there is no mainstream in other social sciences such as sociology or political science where, in those disciplines, instead of promoting a conventional wisdom, various "schools of thought" and "methodological approaches" compete with one another? Oceans of ink have been spilled

Published online by Cambridge University Press

on that question or its cognates. Either you believe that the mainstream economic view represents truth and therefore is refined and promulgated as a demonstrable certainty from one generation to the next, or you believe that mainstream economics serves powerful commercial forces in modern society and therefore gets subsidized and rewarded to the point where, because most economists promote it unswervingly, many people come to believe it is true.[107]

Whichever, aside from those who conform, are there economists who reject only some assumptions and teachings of the mainstream? That is, are there economists who reject not *all* of the mainstream but only *some* of its shared understandings? Yes, there are, including but not limited to figures such as Amartya Sen, Juliet Shor, Joseph Stiglitz, Thomas Piketty, Emmanuel Saez, Gabriel Zucman, Robert Skidelsky, and Robert Frank. Their works, which have much to say about economic injustice and inefficiency, provide a wealth of empirical evidence for social critics like Edward Luttwak, Timothy Noah, Hedrick Smith, George Packer, Robert Reich, John Ehrenreich, and Chris Hedges.[108]

Mainstream Assumptions

The next thing we need to understand – to avoid fruitless recriminations – is that *mainstream economics* is not a blanket term invented by some writers so they can use it to criticize prevailing economic ideas because they, the writers, favor increasing government regulation of business, a more egalitarian distribution of income, stricter environmental protection, higher taxes on the rich, and so forth. The term itself is neutral and its purpose is to identify something that really exists, in and around, say, a certain range of economic models, axioms, functions, and theorems. This is clear because mainstreamers, including tenured professors at leading universities, themselves often talk, and talk proudly, about standard ideas in their field. Thus, Nobel Prize winner (economics, 2017) Richard Thaler observes that "economics has a unified,

Published online by Cambridge University Press

core theory from which everything else follows. If you say the phrase 'economic theory,' people know what you mean."[109]

Not surprisingly, there are differences of opinion about how exactly to describe this core theory, about which disciplinary assumptions and teachings to emphasize more and less.[110] I have my favorites among scholars who participate in this debate. I won't name them here, though, so as not to unfairly attribute to them opinions that I may imperfectly represent because the subject is inherently contestable. That said, and basing myself on writers who are, I think, thoroughly knowledgeable about this issue, the following assumptions seem to me to describe the sort of economic thinking that features prominently in American economics departments.[111]

Methodological Individualism

First, there is an assumption of "methodological individualism." Mainstream economists assume that the most important economic actors are individuals, who decide what is important to themselves, and who act so as to gain, acquire, or achieve it. This assumption draws the attention of mainstream scholars toward individual behavior, or abstract models of individual behavior, and therefore pays little or no attention to the way groups act, as if groups – from families to churches, from corporations to governments, from labor unions to banks – are simply collections of individuals among whom each is out chiefly for herself or himself.[112] Thus sociologists and anthropologists often "do" groups, whereas economists usually "do" individuals.[113]

Rational Calculations

A second assumption is that people, when engaged or not in economic activity, are animated by rational calculations. Rational in this sense is not a synonym for "reasonable," which might be a cogent notion of what is good or healthy or fitting for human beings. Rather, rational in the economic sense pertains to the technical matching of means to ends. A person decides that he or she wants something and then seeks to

Published online by Cambridge University Press

apply the most effective available means to that end.[114] In this sense, saint or sadist, one acts "rationally." Economists leave it to philosophers and theologians to say otherwise.[115]

Utility

A third assumption is that the driving force behind rational behavior is the hope of acquiring not a particular thing but the quality of "utility" that someone can enjoy from that thing. Each person decides what will make himself happy or prosperous, then sets out to gain it. The point here is that, for economists, utility is a subjective quality so that, as Jeremy Bentham said, in terms of utility defined as happiness there is no difference between reading poetry and playing the game of push-pin. As a purely descriptive matter, in economic theory each person seeks out whatever will produce utility in his or her own eyes.[116]

Self-Interest

A fourth assumption is that, because economics assumes that individuals seek utility, it is clear that workers, on behalf of wages, and employers, on behalf of profits, are driven chiefly to satisfy their personal desires. But by extension economists can also claim that people in other social realms do the same, in which case in governmental matters – a very important realm for political scientists – some economists advise us to assume that voters, activists, elected officials, and bureaucrats act mainly out of self-interest. This sort of reasoning underlies "public choice theory"[117] and helped James Buchanan win a 1986 Nobel Prize in economics.[118]

Prices

A fifth assumption is that individuals trying to obtain utility are guided in their calculations by prices, which economists claim are linked to marginal production costs and which, in ideal markets, present themselves as equal to whoever intends making a sale or purchase. Marginal pricing is important because, among other reasons, it contributes to an ideal market

Published online by Cambridge University Press

situation where, unless government interferes, buyers and sellers presumably interact solely on the basis of price information, which is objective and therefore fair to all participants.[119]

The Invisible Hand

A sixth assumption is that when individuals go to market, some to sell and others to buy, within a framework of prices known to all, an "invisible hand" brings together all of their preferences and priorities into a configuration of deals that can be considered "efficient." This assumption of a benevolent, invisible hand that assures that, for a fee, people like butchers and bakers will supply our needs was postulated during the eighteenth-century Enlightenment by Adam Smith.[120] It was an elegant way of keeping a just, but also non-denominational, God at our side when various philosophers were no longer sure that Providence cared.[121]

Equilibrium

A seventh assumption is that if the invisible hand is permitted to operate more or less freely, the sum total of all deals made between individual actors will generate a benign balance, which economists call "equilibrium" or "general equilibrium." Associated with the work of economists such as Leon Walrus, Vilfredo Pareto, Kenneth Arrow, and Gerard Debreau, the notion of a society-wide equilibrium of voluntary exchanges, providing utility to both buyers and sellers, suggests that leaving people free to make deals among themselves will maximize the utility that can be attained by the amount of economic resources available at any particular time.[122]

Mainstream Teachings

Mainstream economics contains more than seven assumptions and we will meet some of the additional ones later. I will also have more to say about the original seven. For the moment, though, what I have described is enough for me to offer a

Published online by Cambridge University Press

generalization about what the conventional, standard, neoclassical, core, modern, central, signature thrust of economics is about.

According to this generalization, economics as a "discipline" – or, as a column in the Temple of Science – aims at explaining how natural and human resources can be used "efficiently," or how "factors of production" can be combined fruitfully, in trading situations that economists call "markets," with "innovation" helping us to generate the maximum amount of "utility" that those factors can provide. Oddly enough, if all of this works well – that is, if government will just let people alone to get on with their economic propensities – there is no need for society, or, as Offer and Soderberg write, "if the model is true, then society is redundant."[123] The United Kingdom's Prime Minister Margaret Thatcher may have had something like that in mind when she declared that "there is no such thing as society. There are individual men and women and there are families."[124]

Gross Domestic Product and Welfare

At least three very large teachings flow from this sort of economics. The first concerns the fact that when individuals buy and sell goods or services in order to acquire or achieve utility, they pay for what they get. As a result, their transactions can be registered as expenditures, after which those expenditures can be added up, in dollar terms, so that the totality of transactions can be represented by a monetary aggregate that denotes what economists call the gross domestic product (GDP).[125]

Most importantly, that sum, in any particular country, in whatever currency, represents the amount of utility that individuals in that country have generated in consequence of buying and selling. It follows that GDP may be regarded as a collective index of happiness and satisfaction. And therefore, because in every exchange each side either buys or sells in order to become better off, the sum of their exchanges is a measure of what economists call "welfare."[126]

Published online by Cambridge University Press

Markets and Value

The second teaching is related to the first. If the sum of exchanges, in money terms, tracks the quests of many individuals for utility and therefore registers the welfare of all economically active individuals in a country, then the mechanism that facilitates exchanges is a necessary part of that country's economic equipment. And that mechanism, according to mainstream economics, is the "market," to which each individual comes to sell what he has and buy what he wants. In that sense, markets create "value," because that quality appears when an exchange takes place and both sides emerge from it happier and more prosperous than before they traded.[127] And if markets are the field where value is created, then markets should be permitted to function freely so as to continue to produce that value.[128]

Economic Growth

The third teaching – and this is really the capstone, the flagship, the epitome, the *ne plus ultra* of mainstream economic teachings – builds on the first two. If (1) GDP (which economists promote) is an index of welfare, and if (2) markets (which economists recommend protecting) are where the exchanges that add up to GDP are created, then (3) the purpose of economic action is to generate well-being and prosperity, from one year to the next. In other words, the third mainstream teaching is that economists, (a) by studying the factors of production, and (b) by analyzing how those can be combined and peddled effectively in markets, more or less (c) show us how to generate welfare. Even more specifically, what economists show us is that, (d) if markets are carefully fashioned and reliably maintained, (e) they will facilitate so much productivity that, as time passes, increasing amounts of utility will be created for the country.

Let's rephrase this. In effect, economists teach us that the main purpose of economics, as a Temple column, is to help everyone understand how to maintain and increase

Published online by Cambridge University Press

productivity or, in a word, to promote “economic growth.” GDP is nominally (in America) a dollar index. Therefore, if it rises from one year to the next, the later and higher sum only shows that more dollars are circulating in the country. However, appropriately interpreted, GDP shows much more, because the assumption of mainstream economics is that when GDP goes up (subtracting for inflation) it is composed of more things (and/or services) than previously, which themselves embody more utility and are therefore, when taken together, desirable.

Three Propositions

The implications of promoting economic growth are cardinally important, and very complicated, and we will come back to some of them. For the moment, let us only confirm that it is truly a representative teaching of the mainstream. For example, the great importance of economic growth underlies what economist Alan Blinder offers as three “noncontroversial propositions” that, for Blinder, sum up what he calls “the economic way of thinking.”[129] These three propositions stipulate that: (1) “For most goods and services produced and sold in a market economy, more is better than less.” (2) “Resources are scarce.” And (3) “Higher productivity is better than lower productivity.”

The first proposition, that more is better, certainly justifies economic growth. It is, however, nowhere near being “noncontroversial” (although mainstream economists may regard it as obvious).[130] In fact, it only seems sensible to say “more is better” if we ignore a great many specific cases of where it is not. Therefore, as one critic observed, “More is not enough. Often, it’s not even better. Sometimes it’s decidedly worse.”[131] This would be true, for example, of making more teakwood tables (cutting down jungle habitats), doing more dental work (required because people eat too much sugar), raising more shrimps in ponds (causing downstream pollution), buying more SUVs (burning up more gasoline than smaller cars), and installing more self-service supermarket checkout machines (increasing unemployment among former and potential cashiers).[132]

Published online by Cambridge University Press

The second proposition, about scarcity, connects to the third, about productivity. The sequence is as follows. If resources are scarce, people feel constrained by not having as many things as they want to consume; therefore, we need rising productivity at work to more effectively turn resources into more things than we have today; after which, when there will be more things, we will consume more of them than previously and thereby reduce our unpleasant sense of being constrained. That is, more things generate more happiness or, in economic terminology, more utility. We will return to this notion.

The Salience of Economics

In America, collecting national economic statistics became a federal project in the 1930s whereupon, after World War II, because GDP figures had become available, politicians moved quickly to declare that the national government should promote economic growth that would, hopefully, prevent a relapse into the terrible idleness and poverty that plagued many Americans during the Great Depression.[133] In those circumstances, because economists were present to explain to students, the public, and elected officials how to generate economic growth, and because that growth was widely considered to be America's main public policy goal, economics became, in the intellectual world, what Lorenzo Fioramonti has called "the most powerful of all disciplines."[134]

This salience of economics we should try to understand, although it cannot be measured precisely.[135] In general, the power of economics as compared to other disciplines – the perceived importance of one Temple column as opposed to others dealing with human affairs – comes in many parts. But the bottom line is this: When economists talk about how to achieve economic growth, they sound especially credible because, to many people, economists sound like what they know is "scientific."

Published online by Cambridge University Press

What happens here is that in a society where, since Darwin, scientific work – meaning empirical or experimental work – enjoys great prestige, economists define the target of their research as activities that can be tracked by the expenditures they entail.[136] That is, economists work with reference to dollars (or other currencies), which exist in exact quantities and are not the sort of intangible items that other disciplines deal with – for example, "love" in psychology, "conservatism" in political science, and "holiness" in theology. Economists take this simple metric, collect relevant examples of it – wages, profits, loans, sales, taxes, production costs, debts, and more – which presumably reflect economic activity, and then, in lectures and writings, they analyze those examples mathematically, as if scientifically.[137]

When enough mathematical formulations about expenditures are available, some economists claim that the regularities of behavior they reveal, if any, are similar to natural laws like those discovered by physicists.[138] They may even suggest that economic laws of behavior are as regular and predictable as those which govern the solar system.[139] And all this the discipline as a whole discusses within a complex web of metaphors – like "curves," "thought experiments," "game theory," "marginal productivity," "equilibrium," "countervailing power," and "consumption function" – which seem scientific even when, like all metaphors, they aren't.[140] Because other social science disciplines do not, or cannot, persuasively make similar claims, economics seems, by comparison, singularly impressive.

Methodological Individualism

The bottom line here is that a general reputation for being scientific generates great prestige for economics. But a more specific factor, somewhat technical, is the "methodological individualism" assumption we noted earlier. Focusing on individuals – from consumers to CEOs, rather than groups or

Published online by Cambridge University Press

organizations – as prime economic actors, economists argue that each individual behaves in the special way that economists describe as "rational" for seeking "utility." So many people behave this way, economists tend to say,[141] that when such people go about making voluntary economic deals with other people, the result is an equilibrium that can be interpreted, in theory at least, as an optimal condition in social affairs.

That is, if economic exchanges are made freely – and there is one implication of the term "*free* enterprise" – each party to an exchange enjoys more utility after the exchange than she did before, else why make the exchange at all? As Nobel Prize winner (economics, 1976) Milton Friedman says, "both parties to an economic transaction benefit from it provided the transaction is bi-laterally voluntary and informed."[142]

To buttress this proposition, economists draw "indifference curves" (as if on graph paper), in seemingly scientific fashion, to show how exchanges between two individuals can be regarded as satisfactory. Thus, in the Edgeworth Box diagram, one person (a consumer) has a curve representing what quantities of, and at what prices, she is willing to *buy* X (when there is a lower price for X, she will buy more of it; when there is a higher price for X, she will buy less of it). At the same time, another person (a producer) has a curve representing what quantities of, and at what prices, she is willing to *sell* X (where there is a higher price for X, she will sell more of it; when there is a lower price for X, she will sell less of it). Where those two curves meet, the price of the buyer and the price of the seller are the same, in which case, when both sides agree to trade at that meeting point, both sides will benefit.

I will say more about Milton Friedman's informed voluntarism and the a-historical Edgeworth Box, both of which are, in fact, painfully unrealistic. Meanwhile, let us note that, in theory at least, if all parties to "voluntary" economic exchanges are better off than before, this is surely an admirable result, and perhaps even optimal for America if millions of such exchanges every day are facilitated, or unimpeded, by government policies.

Published online by Cambridge University Press

Voluntary Exchanges

Ergo, starting from individualist assumptions, economists suggest to non-economists that if they, as political leaders and followers, will heed economic advice and direct government to maintain markets that will enable voluntary exchanges, the country will grow increasingly prosperous and happy. On this point, economics seems praiseworthy to many people for aiming America in the right direction. However, the concept of "voluntary" in such matters is complicated by the fact that, in real life as opposed to theory, people are exposed to powerful practices such as commercial advertising, which encourage them to act *not* voluntarily but in line with sometimes subtle and sometimes obvious nudges.[143] In other words, what if economists are *mistaken* for suggesting that markets, suitably maintained, will increase well-being because, in those markets, *voluntary* trading is conducted?

Mainstream economics deal with the likelihood of *involuntary* trading – which would confound their theory – very successfully by mostly assuming that it doesn't exist.[144] By definition, it cannot exist if people make decisions based on "rational calculations," because if those decisions are rational, they arise from within individuals and not from what surrounds them, such as advertisements. The key concept here is "consumer sovereignty," which suggests that consumers – who exercise purchasing power when they shop – are stronger than producers, because consumers cannot be compelled, but can only be enticed, by producers (or stores) to buy what is on sale.[145]

The fallacy of downplaying ads was pointed out long ago by economist John Kenneth Galbraith, who observed that manufacturers and stores (i.e., "producers") spend billions of dollars on advertising,[146] much of which is not truthful, to persuade (but not force) ordinary people (i.e., "consumers") to buy not what they independently desire but what producers want to sell to them. He called this order of influence "the revised sequence," by which he meant that conventional economic thought assumes that consumers control producers whereas,

Published online by Cambridge University Press

in fact, the reverse is true.[147] To make a long story short, it is as if Galbraith agreed that consumers cannot be *forced* but added that they can be *duped*.

Galbraith's argument has little influenced mainstream economists, who devote almost no research or teaching to advertising, and this for three reasons that are not registered formally. The first is that economists mainly ignore non-monetary impulses – say, tradition, envy, custom, love, class sentiments, charisma, and institutional solidarity – because admitting the influence of those factors on all of us would refute the marginal utility, rational-calculations model of billiard-ball-like consumers just buying what they want at prices they are willing to pay.[148] In other words, the abstract, rational individual model – the basis for "methodological individualism" – is so useful for generating fame and fortune in the discipline of economics that most economists try to preserve it even though psychologist Daniel Kahneman received the 2002 Nobel Prize in economics for demonstrating that many consumers miscalculate probabilities and therefore cannot make accurate choices or rational trades.[149]

The second reason why mainstream economists stay away from advertising and its power is that many American corporations, like General Motors or Amazon or Walmart or Apple, are very large compared to John Q. Public or Joe the Plumber. In that situation, which cannot be hidden, a power imbalance threatens American principles of democratic equality. As Andrew Hacker said, the world of real economic life is like elephants (corporations) dancing in the barnyard among chickens (the rest of us).[150] It is therefore comforting to believe that, if the concept of consumer sovereignty is accurate, the chickens will not get crushed, i.e., that little consumers are actually stronger than big corporations.

Third, for more than 100 years now, public relations and advertising talk have infected discourse in modern society, where some people are paid to deceive other people, or, in the polite phrases that describe such deception, to "spin" perceptions into comfortable beliefs or to "frame" reality so as

Published online by Cambridge University Press

to make it look like something else.[151] If the scholars who write about this sort of manipulation are correct,[152] what they know challenges the mainstream economic notion that most people make their decisions "rationally," that is, as a deliberate reflection of desires that they sense in themselves and that they seek to fulfill without reference to signals from other people. In truth, if one has *needs*, that is one thing. But if one has *wants*, they can spring from outside manipulation rather than inner conviction.[153]

Academic Imperialism

At the outset of this chapter, I said we should consider two faces of economics. The first face relates to how economists come to seem especially persuasive among social scientists by displaying a distinctive way of looking at human affairs. Along these lines, we have seen that mainstream economics seems objective for looking scientific, with mathematics and models; it seems effective for measuring life exactly, in money terms; it seems useful for showing how the country can increase welfare, via economic growth; it seems virtuous for showing that trades can achieve a fair equilibrium if they are voluntary; it preserves a reputation for realism by downplaying causes of irrationality in economic behavior; it comforts us by affirming that we control large corporations instead of them manipulating us. The list is long and impressive.

Let us add one more factor to this list and then move on to considering the second face of economics, which is its signature advice in favor of economic growth. This final factor we may regard as a kind of academic "imperialism," in that some economists enjoy great prestige because they have leveraged their view of "rational" human behavior into a claim that whoever studies economics will best understand how individuals make (or should make) decisions in fields as diverse as political campaigning, nuclear strategy, global warming, buying cars, and choosing marriage partners.[154] Moreover, to understand economic thinking is, or so economists say, to find answers

Published online by Cambridge University Press

to questions such as who wins in sumo wrestling? Why do many drug dealers live with their mothers? Why are seatbelts deadly? Who should pay for oil spills? Why are some people against abortions? Why do capitalist employers ignore race when hiring? Why are brown eggs more expensive than white ones? Why do people vote? and more.

In short, in addition to its presumably effective research and teaching having to do with money and money matters – and who among us cannot use advice on that important subject? – economics as a discipline tells Americans that it is more useful than other columns in the Temple of Science even in realms where those columns have traditionally ruled.[155] This far-reaching claim appears repeatedly. For example, Gary S. Becker and Guity Nashat Becker, *The Economics of Life: From Baseball to Affirmative Action to Immigration, How Real-World Issues Affect our Everyday Life*.[156] For example, Steven D. Levitt and Stephen J. Dubner, *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*.[157] For example, Robert H. Frank, *The Economic Naturalist: In Search of Explanations for Everyday Enigmas*.[158] For example, Dan Ariely, *Predictably Irrational: The Hidden Forces That Shape Our Decisions*.[159] For example, Steven E. Landsburg, *The Armchair Economist: Economics and Everyday Life*.[160] For example, Tim Harford, *The Logic of Life: Uncovering the New Economics of Everything*.[161] The blurbs for such books strengthen their claim that economic wisdom trumps (excuse me) much of what other columns in the Temple might offer.[162]

Published online by Cambridge University Press