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Reviews

DANIEL B. KLEIN, EDITOR (1999) *What do Economists Contribute?* (New York: New York University Press/The Cato Institute). 156 + xvi pp., ISBN 0-8147-4722-1

How should economists participate in society's decision process? How can a profession devoted to increasingly esoteric abstraction assist laypeople in deciding on aims of economic activity and resource allocation? Daniel Klein has collected an impressive set of essays by an impressive set of economists who address these and related issues.

In the view of Klein and his authors, the profession has produced a crisis for itself. The discipline's practical application and raison d'etre is in guiding public policy, but in a democratic society the most economically knowledgeable are rarely elevated to decision-maker status.

Furthermore, the profession rewards, even demands, ever-increasing mathematization, formalism, and abstraction, rendering much of modern economics useless for addressing policy, and the rest incomprehensible to laypeople.

The profession has already attained a level of subspecialization and formalism that makes the majority of contemporary literature incomprehensible to the majority of contemporary economists, let alone laypeople. This trend shows little sign of abating. In 1942, Frank D. Graham described most economic research as "assiduous dust-gathering," and one wonders how he might react today.

Austrians have no monopoly over concerns for the profession's orientation and evolution, but these have always been particular concerns of the Austrian School, dating back to the *methodenstreit*. Menger devoted the first book of the *Untersuchungen* (1883), and Mises devoted the last section of *Human Action* (1949), to many of the same issues. Several essays in this volume are by avowed Austrians.

Klein contributes an interpretive introductory essay tying the collection together. He notes the practitioner of political economy is not the economist, but the everyman, the voter or policymaker unschooled in contemporary technical economics, or even in the less fashionable common-sense economics of Adam Smith and others.

Because less sophisticated, less formal, less mathematical economic rhetoric can be understood and used by intelligent laypeople, it provides the only vehicle for the profession to engage the political decision process. Unfortunately, the profession rarely performs this kind of economics today, and rewards it even more rarely.

The profession has responded by retreating into peculiarly arid formalisms, surrendering whatever influence it might have had over political economy. We are mute in policy discussions, and if we spoke up we would not accomplish much because much of what the profession has to say is trivial or incomprehensible, or frequently, both. Matrix algebra and overlapping-generations models cannot frame arguments persuasive to outsiders. Our inability to communicate effective rhetoric renders our conclusions irrelevant. And for the most part we accept this status quo.

The ten essays in this collection range chronologically from 1936 to 1998, demonstrating the crisis is continuing, unresolved, and has a well-established history. This was not a new crisis when W.H. Hutt addressed it in the thirties, and it is interesting that the most commonly cited example of an economist whose rhetoric and arguments did and can still impact political economy is Adam Smith.

Frank D. Graham (1942) addresses the role of value judgments in economics. One reason for the divorce of positive economic research from the policy sphere it should inform, is an attempt by the profession to practice a rigorously value-free, scientific discipline. In Graham's view, value-hierarchies are implicit in our choice of profession, subfields, schools of thought, and methodology. He observes that attempts to force "theory into rigid scientific forms has frustrated its application to the facts of life."

Ronald Coase (1975) revisits a persuasive critique of price regulation framed by Adam Smith (1776, Book IV, Chapter V) and Edwin Cannan. Coase cites the regulation-caused natural gas shortages of the 1960s and 1970s and argues that regulation of new drugs introduced in 1962 cost more lives than the regulations were likely to have saved in the same period. A possible reason for economists' avoidance of policy issues left unaddressed is that if the sphere of government operations were reduced, governments would employ fewer economists.

W.H. Hutt (1936) despairs of economists ever gaining much influence in an increasingly irrational world. He sympathizes with practitioners who abandon practical policy for pure theory. Hutt frames a sophisticated twelve-step argument: economists realize what little influence we have on public opinion and respond by retreating into pure theory. We cultivate irrelevant expertise, foreclosing any possibility of influence. As we increasingly achieve bloodless abstraction, we develop a professional bias against obvious common-sense conclusions, sometimes masked as humility. Technical refinement becomes an end rather than a means, and when rigorous mathematical analysis sometimes proves barren of meaningful results, that event is trumpeted as a failure of fundamental tenets of the discipline, not of the particular path certain practitioners had chosen. Hutt sees simplicity of exposition and popularization, as practiced by Edwin Cannan, J. Shield Nicholson, and Lionel Robbins, as the only road for salvation of both the profession and public policy.

Clarence Philbrook (1953) writing in the AER, had found his proposals for policy reform derogated as "unrealistic." Apparently no one took his research seriously enough to either define realism, or make any effort to justify their dismissal of his work. It fell to him to develop his opponents' position. His conclusion is that he was opposed by a set of unarticulated beliefs about the probability of different reforms being politically viable. In Philbrook's view, muzzling policy criticism is tantamount to active approval and support of the status quo. The profession becomes a lapdog—well fed perhaps, but not playing a useful role in informing either decisionmakers or the electorate.

Gordon Tullock (1984) recommends we each find some local cartel or regulatory abuse to study, and publicize the negative impacts to the group bearing the costs. His example is a pamphlet on the British Columbia Egg Control Board by Borcherding and Dorosch (1981). Although Tullock acknowledges the profession attaches low value to such publications, he stresses the professional value greatly exceeds the relatively low cost, and the social value greatly exceeds that of most articles in leading journals.

Deirdre McCloskey (1990) reviews the history of economic rhetoric. Although generally devalued by the profession, the ability to frame persuasive arguments and anecdotes provided economics most of its historical impact. She relates how competition in international trade is often described with ludicrous, though persuasive, metaphors from competitive athletics, litigation, or worst of all, warfare. These metaphors often lead to incorrect conclusions because they conceal the vital fact that international trade, like all voluntary exchange, is mutually beneficial, and emphatically not a zero-sum game.

Thomas C. Schelling (1994) addresses the significance of economic understanding of the real world with a thought-provoking essay highlighting the importance of fundamental knowledge, in this case a set of accounting identities.

Israel M. Kirzner's (1983) review of Stigler's (1982) *The Economist as Preacher and Other Essays* analyzes Stigler's argument into two theses: first, society does not listen to us, and second, we have nothing of value to offer society. Economics, in Stigler's view, lacks a theory of mistakes, so economists are not heeded when we claim economic policies are mistaken. Kirzner points out that error and the correction of error play a major role in determining resource allocation and how social wants are satisfied. The entrepreneur serves this function in the economic sphere, and the economist is free to serve it in the intellectual sphere. This is a major theme of much of Kirzner's (e.g., 1973) work.

F.A. Hayek's (1944) address to an LSE student group deplores the extent of disengagement between the profession and the political process. Hayek does not see any way around this impasse, but his conclusion is that the profession remains a worthwhile vocation, though often frustrating. It is interesting to contrast Hutt's disparagement of humility (pp. 59–60, discussing Robinson (1933)) with Hayek's exaltation of it (p. 139).

Klein provides an expanded bibliography which includes many relevant and interesting essays excluded from this volume. The collection is extremely valuable in its own right and Klein's introduction helps motivate his choice of readings and instill a sense of thematic purpose.

Although all authors represented concur about the importance of engaging the profession in policy issues, a range of viewpoints is offered. A collection of like-minded essays on economic methodology would be especially welcome.

References

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