Economics as a Social Science

An Approach to Nonautistic Theory

Andrew M. Kamarck

Ann Arbor

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Preface and Acknowledgments

Except when interrupted by academic appointments at UCLA and Harvard and adjunct teaching at the Johns Hopkins School of Advanced International Studies, my career as an economist was in institutions enmeshed in real world policy problems. Economics training was indispensable, but experience taught that to be useful it had to be greatly modified from conventional theory. While economics is famously, in Lionel Robbins's definition, supposed to be concerned with the relationship between given ends and scarce means, the people who are actually charged with allocating the crucial scarce investment resources in the economy find present-day theory practically useless (1981, 2, 9). Business schools that train investment managers neglect it. The investment genius of Fidelity Investments, Peter Lynch, stated flatly that his work requires a little less than fifteen minutes a year on economics (Train 1994, 22).

More kindly, Francis Bator has argued that if you take all the conventional assumptions of the pure theorist not empirically as a good description of the real world but simply as a hypothesis, the implications are interesting. The usefulness of that set of formalizations, based on this wholly and empirically unrealistic set of assumptions, enables you to identify how strong the assumptions have to be in order to make the modern version of the invisible hand theorem hold. In sum, as J. E. Stiglitz commented: "The economists of the twentieth century, by pushing the neoclassical model to its logical conclusions, and thereby illuminating the absurdities of the world which had been created, have made an invaluable contribution to the economics of the coming century" (1992, 136).

In my experience, economics can be a nonautistic discipline and really useful for understanding and coping with the real economy when it is conscious of the impossibility of grasping the world with precise accuracy; is willing to take advantage of the contribution that other disciplines can make to knowledge of the economy; and works with assumptions that are more realistic and empirically useful. Other works of mine are concerned with the first two of these conditions; this work primarily focuses on the last.

My main debt is to my colleagues over the years in the Federal Reserve, the U.S. Treasury, the Allied Control Commission in Italy, the Allied Control Council in Germany, the Senior Staff Committee of the National Advisory Council on International Monetary and Financial Problems while we were coping with the financial and monetary problems of the post–World War II period and shaping the Marshall Plan, and finally the World Bank and the financial and economic departments of governments throughout the world with which I had the opportunity to work. As readers of this work will notice, I also exploit the intuitive understanding that great authors have of the human psyche—a deeper insight into human nature than can be derived from one-dimensional economics' *déformation professionelle.*

I profited from the workshop at the Harvard Faculty Club on an earlier version of this manuscript that was organized and directed by Armand Clesse of the Luxembourg Institute for European and International Studies as part of a long-term project that investigates, using a multidisciplinary and multinational approach, the issue of the rise and decline of countries. As is evident from references throughout the book, the workshop was invaluable to me in validating and clarifying some of my thoughts, suggesting new ideas, and finally saving me from errors into which I had stumbled. For this, I am grateful to Michael Ambrosi, Professor, Department of Economics, University of Trier; Francis Bator, Professor, John F. Kennedy School of Government, Harvard University; Anne P. Carter, Professor, Brandeis University; Armand Clesse, Director, Luxembourg Institute for European and International Studies; David C. Colander, Professor, Department of Economics, Middlebury College; Peter Doeringer, Professor, Department of Economics, Boston University; Archie Epps, Dean of Students, Harvard College; Henri Étienne, Chargé de Mission, Ministère des Affaires Étrangères, Luxembourg; Mario Hirsch, Editor-in-Chief, d'Letzebuerger Land, Luxembourg; Jan S. Hogendorn, Professor, Department of Economics, Colby College; Franklyn D. Holzman, Professor, Tufts University; Charles P. Kindleberger, Professor Emeritus, MIT; Norbert von Kunitzki, President, Board of Directors, SIDMAR S.A., Gand, Belgium; David Landes, Professor, Department of Economics, Harvard University; Gustav Papanek, Professor, Boston University; John Powelson, Professor, Department of Economics, University of Colorado; Bruce Scott, Professor, Harvard Business School; Paul P. Streeten, Professor, United Nations Development Program; and Raymond Vernon, Professor, John F. Kennedy School of Government, Harvard University.

I also benefited from an additional critique that Jack Powelson, a participant in the workshop, was kind enough to undertake. The comments on

my approach to the subject by Yale Professor William Parker and Boston University Professor Emeritus William M. Capron were most helpful.

Finally, I want to express my gratitude to Ellen McCarthy, the Social Science Editor of the University of Michigan Press, for her patience and for helping me keep the whole process in proper perspective. If I have gone astray in some respect, it is of course my responsibility.