Notes

Chapter 1

1. Autistic behavior is not restricted to economists. Note, for example, the following statement by Venant Cauchy, honorary president of the International Federation of Philosophical Societies: “What strikes me as particularly worrisome in many areas of philosophical activity is the relative lack of relevance, even the refusal of relevance in the face of the fundamental social, economic, political, ethical, and technological problems which confront us today. The relative impotence or inability to cope significantly with the issues, the tendency to view philosophy as a game or a mere formal exercise, is very worrisome indeed” (quoted in Stoehr 1998, 31).

2. According to Barro’s theory, an individual chooses a path of consumption and a bequest to the next generation by maximizing a utility function that has as its argument the individual’s own annual consumption amounts and the utility of the next generation. A tax cut matched by a rise in the national debt to be serviced by taxes on future generations does not change the opportunity set of the individual. He or she maintains a consumption path and the utility level of the next generation by saving the whole of the tax cut, investing it, and leaving it to the next generation. This allows the next generation to maintain its consumption path and look out for its heirs. The process results in finite-lived individuals being equivalent to infinitely long-lived individuals (Barro 1974; Feldstein 1988).

John J. Seater finds exact Ricardian equivalence implausible (1993, 143) and believes that it requires too many stringent conditions to be believable (184), but he still accepts the articles supportive of it, rejects those opposed, and concludes that it is an attractive model of government debt’s effects on economic activity (184). I can only echo James Tobin’s question voiced on a similar occasion: “Why do so many talented economic theorists believe . . . elegant fantasies so obviously refutable by plainly obvious facts?” (1992, 400).


Chapter 2

1. Der Mangel an mathematischer Bildung gibt sich durch nichts so auffallend zu erkennen, wie durch masslose Schaerfe im Zahlenrechnen.

2. In economic jargon, “the combined assumptions of maximizing behavior, market equilibrium and stable preferences, used relentlessly and unflinchingly . . . provides
a valuable unified framework for understanding *all* human behavior” (Becker 1976, 5, 14, emphasis in original; quoted in Elster 1989, 105). Economics megalomania is not unique. Compare this statement: “Unfortunately, psychology as a profession tends to assume that all questions about human action fall within its domain and that all can be eventually answered with the authority of science—this imperialism has gone largely unquestioned” (Staddon 1995, 88–89).

3. The following discussion draws heavily on Kamarck 2000.
4. See Kamarck 2001 for a development of this approach.

Chapter 3

1. That I might understand what / in final analysis holds the world together.
2. This translates into English as: “It is the social constraint, pure and simple. Society wills that men suffer and die at the front. Therefore they suffer and they die. That’s it. . . . The fear that man has of society is much stronger than the fear he has of shells. Their fear of society isn’t physical. It is intangible. Man is so made that for him a physical fear is almost always less strong than an intangible fear. The intangible fear of society knows how to take on forms that have an immediate effect in themselves. On one side, fear of shells. But on the other side, the fear of what your comrades or your commander will think, or if you are a commander what your men will think. It takes in one sense more courage for the average man to face up to a reputation of cowardice than to endure an explosion of shells.”

Another reason for overriding self-interest by a soldier was illustrated by the letter, quoted by Ken Burns in his Civil War television series, that Major Sullivan Ballou, a Union officer, wrote to his wife.

I have no misgivings about, or lack of confidence in, the cause in which I am engaged, and my courage does not halt or falter. I know how the triumph of American civilization now leans upon the triumph of the government, and how great a debt we owe to those who went before us through the blood and suffering of the Revolution; and I am willing, perfectly willing, to lay down all my joys in this life to help maintain this government, and pay that debt.

Sarah, my love for you is deathless. It seems to bind me with mighty cable that nothing but omnipotence can break; and yet my love of country comes over me like a strong wind, and bears me irresistibly, with all those chains, to the battlefield.

Major Ballou was killed a week later in the First Battle of Bull Run (Rouner 1999, 1).

3. In modern economies, the effect of rising wages may be indeterminate: When wages rise, a worker may prefer to “buy” more leisure by working less. This is the so-called income effect. Or, with higher wages, a worker may decide to work more hours since each hour of leisure has a higher opportunity cost. This is the so-called substitution effect. In modern economies, it is usually assumed that at lower wage rates the substitution effect is stronger so that with a rise in wages more labor is supplied. In countries entering the market system, this turns out to be untrue. People here regard their working hours as time lost from their normal lives.
Chapter 4


2. A more detailed definition would be that rationality occurs when cognitive agents adopt beliefs or take actions with appropriate reasoning (i.e., using rigorous logical rules for deciding whether a proposition should be believed) on the basis of appropriate evidence (in empirical matters, this means having an adequate body of evidence) and yields results that are universal and necessary in the sense that they will be agreed upon by anyone who undertakes the same rigorous process.

3. But all is not lost. One economist has hastened to explain that economists who live up to the honor system must do so because they are reimbursed by their employers (Journal of Economic Perspectives 1997, 198).

4. I have had colleagues whose self-destructive behavior ruined any chance of a successful career. One highly competent economist in the Marshall Plan mission in Rome was declared persona non grata by the Italian government because he couldn’t control his tongue. He lost one job after another for the same reason until he killed himself.

5. Formal theoretic economic models assume that they can capture the ranking of outcomes based on individual self-interest. It has been argued that one can likewise assume that these models can also capture outcomes that are based on a wider range of individual concerns than pure self-interest. That is, these models can take into account altruistic as well as self-interested motives. This, however, is not true—it is not possible for a model to capture the ranking of outcomes according to an individual’s full range of concerns from self-interest to its polar opposite, negation of self-interest, in a single, all-purpose, preference ordering. Such a model would capture everything, that is, blot out the whole of our motivational spectrum. It would therefore be meaningless (McPherson 1993; Sen 1977).

6. Comments by Michael Ambrosi, David Colander, and Peter Doeringer helped clarify some of my thinking about reasonableness.

7. This approach owes much to Thomas Mayer (1999). But note how Alfred Marshall made a similar argument, stating that “stress is laid on the fact that there is a continuous gradation from the actions of ‘city men,’ which are based on deliberate and far-reaching calculations, and are executed with vigour and ability, to those of ordinary people who have neither the power nor the will to conduct their affairs in a business-like way” ([1920] 1952, vi).

Chapter 5

1. Ethical principles can be taught separately from religion. The Character Education Curriculum is being used successfully in many major school systems in the
United States. This program, based on a worldwide study of values shared by major cultures and religions, stresses honesty, kindness, courage, justice, tolerance, freedom, and sound use of talents (Goble 1988, 18).

2. Paul Streeten has commented, however, that British senior officials who retire at age sixty often get directorships on boards of companies. This expectation is bound to influence their behavior while in office (personal communication, April 25, 1998).

3. Forty years ago, before pleasure sailing was a mass participation sport, sailors looked out for each other and came quickly to one another’s aid. See Bardhan 1993, 87–134.

Chapter 6

1. The range is from 74 percent in Korea, 73 percent in Switzerland, 49 percent in the European Union, and 24 percent in the United States to 6 percent in Australia and 2 percent in New Zealand.

2. This can be seen in any market and is strikingly evident in modern high-tech industries. The U.S. Justice Department maintained, for example, in its Microsoft suit that the company became dominant in operating systems through fair competition but then used its market power to try to maintain its dominance and extend it to related products.

3. Vernon reports that the “concentration index”—the ratio of sales of the four largest enterprises in each SIC five-digit industry as a percentage of the industry’s total sales—came to 43.7 percent for the 187 multinationals in the Fortune 500 list, 40.8 percent for the rest of the Fortune 500, and 37.9 percent for U.S. industry as a whole in 1965 (1971, 285).

4. When I took singing lessons, it was obvious, even to me, that no matter how hard I tried I would never be able to sing like Pavarotti, as I had not been born with the requisite voice.

5. Ronald McKinnon was one of the principal proponents of the dominant orthodoxy of the 1970s and 1980s that the only strategy for successful economic development is to get the prices right and let the markets run freely. In 1991, older and wiser and confronting the problems of the former communist countries moving to a market system, he confessed that he was now more inclined to emphasize the pitfalls and underline the need for careful state management of the process. McKinnon, in fact, appears to be moving toward the belief that capitalism is a powerful means of economic growth but that to work effectively it has to be managed by the state or powerful responsible banks like those in the German or Japanese tradition (McKinnon 1991, 83; see also Taylor 1993, 279–80).

6. The Harvard Crimson commencement 1999 issue featured an open letter from a graduating student: “overcrowded lectures . . . make up the bulk of the undergraduate experience. . . . Most coursework is taught by inconsistently trained graduate students, while interaction with Faculty is limited to inconsistently offered office hours” (Chang 1999, A12). Another student said he knew what his professors looked like: “small dots” in the distance.

7. Harvard Magazine (1995, 112) presented a Charles Heffling satirical illustration of how, following such an event, professors would have to market their courses through
ads: for example, Social Analysis 20, from Plato to NATO; Deconstruct with the best of ’em in English 12a; Thrill to Rilke, German 55a; Music 9, not just a bunch of notes; and Math 14, it’s integral.

8. The University of Central Arkansas as of 1999 offered new hires the option of tenure (or tenure track) or a 50 percent salary premium and a three-year rolling contract.

9. “From 1990 to 1995, countries of the former Soviet Union and of Eastern Europe experienced an extraordinary demographic crisis, most notably a startling fall in life expectancy. In Russia, life expectancy fell by 6 years, from 70 in 1989 to 64 in 1995, i.e. an estimated 1.3 to 1.7 million premature deaths. These deaths were disproportionately concentrated among prime age men” (Becker and Bloom 2000, 1). In 1999 alone, the Russian population dropped by 800,000.

10. I encountered Robert Kuttner’s Everything for Sale after this essay was substantially complete and was delighted to find that his work and arguments parallel, support, and strongly supplement the shorter treatment of his points in a section of this chapter.

Chapter 7

1. In medicine, Dr. William Osler commented on the difficulty of getting acceptance of the need for aseptic treatment of wounds to prevent doctors from being agents of death by transporting germs from one patient to another: “It was . . . a long and grievous battle, . . . with the opposition of men who could not—not who would not—see the truth” (quoted in Horton 2000, 38).

2. Unfortunately, Walras was not aware that Newton, after buying into the South Sea bubble at the top and losing £20,000, had decided: “I can calculate the motions of the heavenly bodies, but not the madness of people” (Reed 1994, 40).

Walras was fearless in constructing his theory. Does economics as a physico-mathematical science require a measure of utility that escapes us? “Eh bien! This difficulty is not insurmountable. Let us suppose that this measure exists and we shall be able to give an exact and mathematical account” of the influence of utility on prices and the like (1896, 97, quoted and translated in Georgescu-Roegen 1971, 40). This may have been the inspiration for the joke about the engineer, the chemist, and the economist who, lost in the woods and possessing only a can of food with no way of opening it, solve the problem when the economist proposes a solution: “Assume a can opener.”

3. David Colander alerted me to this.

4. It is not surprising, consequently, that economic history has been downgraded, has vanished as a subject in many universities, and is not even acceptable in some schools as a field for the general examination for the doctorate. In Bertrand Russell’s words, “History makes one aware that there is no finality in human affairs; there is not a static perfection and an unimprovable wisdom to be achieved.”

5. As it was in the beginning, is now, and ever shall be, world without end. Amen.

Chapter 8

1. The term rent seeking was coined by Anne Kreuger. Jagdish Bhagwati contributed directly unproductive activities. Gordon Tullock who invented the concept did
not provide a sufficiently catchy name by which to be memorialized. See Tullock 1993
for a history and overview of this valuable innovation in modern economics.

2. Although I live in a fairly safe area, Cape Cod, there are still large costs in
guarding against crime. I have double locks on all my doors and locks on my windows.
Whenever I leave my home, I take the time to lock up. Police routinely visit my street.
I am always careful to close my garage doors by radio signal as I drive away. My auto-
mobile, of course, has locks on all the doors, which engage automatically when I lock
the door on the driver’s side. The car is further protected by a general alarm system that
will sound if anyone should try to break in. On the window is a decal informing a
prospective thief that identification numbers have been inscribed on all parts. The com-
bination radio and cassette player has been specially engineered so that it cannot play if
stolen from the car. The antenna of my radio emerges from the car body only when I
turn the radio on. In my wife’s car, the antenna has been etched into the rear window
so that it cannot be broken off by vandals.

We have probably had less direct loss from predation than most, but during our
lifetimes my wallet has been stolen twice, once in Washington, D.C., and once in
Moscow; my wife’s purse was stolen in Naples; a television set was stolen from our
house on Capitol Hill in Washington; a pair of binoculars disappeared from my car on
Cape Cod; my wife’s car window was smashed and a cassette player was removed while
she was parked in Boston; our dinghy and a jib were stolen from a mooring on Cape
Cod Bay; and even a small blue spruce was removed from our yard. Some debentures we
owned were called for redemption by the Bank of New York just before an interest pay-
ment was due. According to the small print, no compensation was owed to us, and none
was paid.

3. There are examples of gains that came from predation all around us. In my
town of Brewster (“The Town of Sea Captains’), a restaurant, the Gold Coast, carried
on the name of the mansion built by a sea captain out of profits made from slaving off
the Gold Coast in West Africa. There was obstinate resistance on Cape Cod in the
1850s to building the Nauset lighthouse to protect shipping passing the cape because it
would injure the wreckage business then battening on ships driven ashore.