

WHY
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ECONOMISTS
AS IMPORTANT AS
GARBAGEMEN?
Essays on the State of Economics

DAVID COLANDER

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This book is dedicated to
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and
Gordon Tullock
who, each in his own way, have worked to make economists
more important than garbagemen.



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Introduction

Some of my best friends are economists; I say this at the beginning of this collection of essays because, while the title suggests that I, like Brutus, have come to bury economists and economics, I have actually come to praise them. Oh, I criticize all right, but that criticism is based upon a belief that economics is important and that it has an important contribution to make to the public policy debate. I wouldn't waste my time criticizing economics and the economics profession unless I believed them important.

The Positive and Negative Themes

The essays have two themes: a positive one and a negative one. The positive theme of the essays is that economic analysis, if kept in perspective, is enormously powerful. It provides a way of uncovering the workings of real-world phenomena that fit the perceptions many people have. The negative theme is that economic analysis is not being kept in perspective by economists, and that loss of perspective means that much of what comes out under the name of economic research has little or no value for society. But even this negative theme has positive overtones in demonstrating the power of economic analysis.

What is happening in the economics profession becomes much more understandable when one looks at it from an economist's standpoint. Economists have often turned the laser edge of their

analysis on the legal profession, the medical profession, and the world in general but, to my knowledge, no economist has turned economic analysis upon itself and considered the economics of the economics profession. Somehow economists have been all too willing to accept that other people are greedy, self-interested maximizers, but none of them have had the audacity to look at themselves as that same breed—no better, no worse, than the rest of the world. I've never been accused of lacking audacity.

Looking at the profession using an economic perspective requires audacity because, when one uses economic analysis to study the economics profession, what one sees is not very pretty. What one sees is the following: Academic economists, following their own self-interest, have diverted economic analysis from looking at real issues to playing mind-games that are fun for academic economists but of little use for society. Academic economists are allowed to continue these mind-games because what they do is not subject to the test of the market. What's happened in the economics profession is a wonderful example of what economic reasoning says will happen to any group in society that is not subject to market forces.

The Power of Economic Reasoning

Throughout the essays in this book I attack the economics profession, but I do so because I have enormous respect for the power of economic reasoning. There's far too little of it in the world. What do I mean by economic reasoning? I mean neo-classical economic reasoning: analyzing the economy using the assumption that individuals are relatively self-interested and figuring out the strategic decisions these self-interested individuals are likely to make given the institutions that exist, while keeping the economists' personal feelings about what is good and bad out of the analysis, as best one can. I strongly believe that economic reasoning provides one with a powerful tool of analysis. It allows one to portray complicated systems in a relatively simple way

and to cut through years of specific institutional study. Economic reasoning cuts to the quick.

Throughout the debates I see currently under way about day care, rights for the disabled, welfare, support for the arts, I ask myself: Why hasn't economic reasoning influenced the debate? Why doesn't economic reasoning play a larger role?

The reason is that most academic economists aren't subjecting such issues to economic reasoning. Instead they are using economic reasoning to analyze issues that no one besides economists are interested in, either because their discussion of the issues is so abstract that it cannot be applied to economic reality or because they have made such far out assumptions that the applicability of the analysis is, at best, tangential. Economists have retreated into the domain of abstract theory. By applying their analysis to issues no one except economists cares about, economists avoid upsetting people.

It's other communicators, such as Charles Murray or Robert Samuelson, neither of whom is formally trained as an economist, who are applying economic analysis to real-world events with reasonable objectivity. They upset people, but that's precisely what good economic analysis does. It forces people to look at reality from a different perspective than most people use—a perspective that magnifies the individualist motives of individuals and attempts to maintain a nonpartisan view of social reality, even when being nonpartisan requires one to challenge existing social conventions. To see what I mean, let's consider an example.

In one of his *Newsweek* columns, Robert Samuelson (1988) challenged government funding for the arts, claiming that it was an elitist grab for money by a favored few. He argued that rodeos are as deserving, or more deserving, of funding. From an individualistic standpoint, he was, of course, right, but that standpoint differed significantly from that of most readers of the column, and he was strongly criticized by most readers. But I suspect he got a few of them to think about the issue.

It isn't quite true that no economists are applying economic

reasoning to real-world events. Conservative economists, such as Milton Friedman, George Stigler, and the George Mason “mafia” have consistently applied economic analysis to just about every imaginable issue. But they do more than apply economic analysis; they also believe it—they see individualism as morally correct and they support “free market” policies as a moral position, not a reasoned position. For those who agree that individualism is the fundamental tenet of morality, the conservative economists’ approach is convincing, but for those who take a different view of individualism, as the majority of academic society does, the work of these conservative economists is simply an expression of their morality, hardly the stuff objective analysis is made of. Their analysis is discarded as ideological fluff. That leaves it to liberal economists to apply economic reasoning objectively to real-world problems.

But, with few exceptions, liberal economists are extremely hesitant to apply economic analysis to real-world situations because it often comes to results that don’t fit their moral view of how things should be. Since they don’t have a totally individualistic morality, the conclusions of economic analysis don’t match their views of policy. Their response to this problem is to retreat into abstract theory so they don’t have to confront the contradiction that what they morally believe is not what their analysis comes to. That, in my view, is the wrong response.

Liberals would be in a much stronger position if they simply admitted that economic reasoning is not the be-all and end-all. Its usefulness is as a rough-and-ready tool to study things one doesn’t know much about and doesn’t have time to find out. After one has done an economic analysis of an issue, one still must decide whether economic reasoning comes to a reasonable conclusion. To do so, one must integrate social morality into the analysis and have detailed knowledge of the institutions. Only after doing that can economics be appropriately applied to real-world issues. Were liberals to do that, they could play a positive role in real-world economic debates.

An Overview of the Essays

The essays in this volume were written over the last five years. Many were invited essays for economics conferences. As my, I hope, good-natured criticism of the economics profession has become better known over the last few years, I have received many invitations to present my views at conferences and lectures. As I have done so, I have tried to fill in the various aspects of my views, each time presenting an essay on a different aspect of the issues. In doing so I have straightened out my thinking about what my criticisms are. This collection of essays is the finished result, and I believe it provides a good survey of my views.

Part 1 considers economics and policy—what is normally called welfare economics. The title essay, “Why Aren’t Economists as Important as Garbagemen?” looks at economists as self-interested maximizers. The essay is written with humor, but its message is deadly serious and in my view provides a succinct statement about what is wrong with economics. Economics tries to do too much—to be too objective, to be too fair. The only way economics can do that is to make itself irrelevant, and that’s what it has done.

That essay is a broadside attack on welfare economics and the use of the Pareto-optimal criterion that most economists use. That Pareto-optimal criterion is a simple one: A policy an economist recommends should make everyone better off and no one worse off. In the essay I argue that Pareto optimality is not a criterion economists should use in making policy recommendations. Instead, economists should use an alternative criterion which might be called the *reasonable person criterion*: A policy an economist recommends should be one a reasonable person, when presented with the best information about the costs and benefits of the policy that can be provided, would accept if that person were an outside observer. Some economists, like Tibor Scitovsky, have tried to arrive at the reasonable person criterion from the Pareto-optimal criterion, but the path is too indirect and confuses the issue. The reasonable person criterion isn’t deriva-

tive of the Pareto criterion; the Pareto criterion is derivative of the reasonable person criterion.

The second essay, “The Best as the Enemy of the Good,” extends the analysis in the Garbageman essay and emphasizes the point. Until economists give up the Pareto criterion and replace it with the reasonable person criterion, economics is doomed to irrelevancy. The point I make in that essay is that workaday economists have given up the Pareto criterion; they have become part of the process and are doing what good economists should be doing. They are applying economic reasoning to real-world events and making economics relevant. Academic economists should learn from them, not the other way around.

Part 2 considers the economics profession directly and explains why economists do what they do. Two of the essays in Part 2 are relatively well known to economists. “The Making of an Economist,” written jointly with Arjo Klammer, was a highly popular article that helped force the economics establishment to reconsider what it was doing in graduate schools. The approach we followed was simple: We surveyed graduate students at elite schools. Surveying was a novel technique for economists to use, and so not only was our subject matter unusual, so was our technique.

The article was so popular that we extended our consideration of the profession into a book, which we also entitled *The Making of an Economist*. This book included interviews with graduate students that reinforced the arguments made in the article.

In the article, we carefully kept our views out of the analysis; we refused to draw conclusions because we believed that we wouldn’t have the space to explain our views and that the survey results spoke for themselves. In the book, we were no longer careful; after the interviews, we each wrote our own interpretation of the survey and interview results. The essay “Workmanship, Incentives, and Cynicism” is my interpretation of the survey and interviews and hence of the state of economics.

In that essay one sees both themes of this volume expressed. The negative theme is reflected in my characterization of what