Robert H. Nelson

ECONOMICS *as* **RELIGION**

from Samuelson to Chicago and Beyond

foreword by Max Stackhouse

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INTRODUCTION: THE MARKET PARADOX

The maintenance of a market economy involves a basic paradox. For centuries writers such as Adam Smith have argued that the workings of the market should be based on the individual pursuit of self-interest. Yet, if the pursuit of self-interest goes too far in society, the very existence of the market may itself be endangered. If "opportunistic" behavior encompasses too many forms of social action, as seen in recent years in Russia, a market economy may function very poorly.* There is a wide range of behavior—including dishonest and "corrupt" transactions within the

* The difficulties of the Russian economy in the 1990s in fact served to highlight for many observers the importance of a normative foundation that is often simply taken for granted in successful market economies. A few leading economists have been more aware of this necessary element in market workings. A commentary on the work of Friedrich Hayek—ranking him among the most influential economists of the twentieth century—noted:

> Capitalism had proved remarkably effective at raising living standards, Hayek argued, but its success wasn't automatic; it depended on the existence of a generally accepted set of social norms (among them the sanctity of private property), a system of laws reflecting these norms, and a government that enforced the laws fairly, rather than discriminating arbitrarily among individuals. If any of these things were absent, economic development would be stymied. The pertinence of Hayek's analysis has been amply demonstrated since the collapse of communism. Many Western economists, including most of those who acted as advisors to the post-Communist governments, believed that the collectivist economies could be transformed merely by freeing prices and privatizing state-owned firms. In Hungary, Poland, and Czechoslovakia—where capitalism predated Communism, the rule of law was firmly established, and governments tended to respect private contracts—the optimists were pretty much proved right. In the former Soviet Union—where capitalism had never taken deep root, legal contracts were an alien tradition, and official corruption was rampant—the optimists got it horribly wrong.

See John Cassidy, "The Price Prophet," *New Yorker,* February 7, 2000, 50. See also "Russian Organized Crime: Crime Without Punishment," *Economist,* August 28, 1999, 17–19; and R. Jeffrey Smith, "Croats Find Treasury Plundered: State Says Former Regime Stole or Misused Billions" *Washington Post,* June 13, 2000, A1.

institutional framework of the market, "rent seeking" in government policy and administration, and actions that destroy trust in the legal system—that have the potential for undermining the efficient workings of markets.

Although few economists have so argued, it may be that finding a satisfactory resolution of the conflicting roles of self-interest in society—those areas where it can be encouraged and other areas where it must be actively discouraged—is more important to economic outcomes than the technical knowledge provided by economists. The formal idea of "social capital" traces back at least to James Coleman, who wrote in 1987 that "social norms constitute social capital."[1] In the 1990s there has been a growing literature in economics as well that emphasizes the importance of social capital in determining economic outcomes.[2] Some leading social scientists now assert that the social form of capital may be equally or more important to economic performance as compared with physical and human forms of capital.[3] A number of recent commentators have stated that a culture of "trust" is an essential element in maintaining a successful market (or other) economic system.[4] One of the most respected economists of the past fifty years (and winner in 1972 of the Nobel Prize in economics), Kenneth Arrow, recently declared that economists in the future will routinely have to incorporate new forms of analysis of "social variables"—objects of analysis on which the traditional individualistic assumptions of ordinary economic thinking may shed little light.[5]

However it might be achieved, a suitable value-foundation for the market should approve the pursuit of self-interest when it is expressed "legitimately"—for example, in the normal pursuit of business profits in the marketplace. However, there should also be a strong social sanction against various forms of opportunistic activity that represent "illegitimate" expressions of self-interest—for example, bribing government officials to deny operating licenses to potential business competitors.* Society as a whole

* Terms such as "corruption" suggest immoral and illegal actions, and such actions are in fact seen as such from the modern economic perspective. It is important to keep in mind, however, that what is "corrupt" in a modern economic system may be socially acceptable and ethically legitimate in many premodern societies. The development of a modern economy thus requires not only tighter enforcement of laws against corruption but also a cultural shift, part of the process by which the very character of a corrupt practice is redefined as such. This is yet another example of how an understanding of economic development sees it as requiring a social transformation that is inextricably interwoven with many cultural factors. Michael Novak has explained:

> Multinational corporations encounter many moral dilemmas in doing business overseas. In most traditional societies, bookkeeping is not public, nor bound solely by law. Custom and tradition have a familiar base. Ruling families consider it a right, perhaps a duty, to take a percentage of all commercial transactions, much as the governments of developed states levy taxes. In developed societies, such extra-legal but traditional pay-offs are considered bribes, and are both

benefits from a well-functioning market, but many individuals could in fact themselves gain significantly from corrupt and other self-interested actions. Such a tension between individual and common interests is found in many collective action problems. Often the solution is to establish a powerful social sanction against individually motivated actions that harm the wider group.[6] The novel element here is that the requisite normative foundation for the market requires a dual attitude with respect to self-interest—strong cultural inhibitions against the expression of self-interest (of opportunistic motives) in many areas of society, but at the same time strong encouragement for another powerful form of "opportunism," the individual pursuit of profit within the specific confines of the market.

A similar tension in the workings of political systems has been attracting growing attention among political scientists—the conflict between "liberal" attitudes granting a greater legitimacy for the individual pursuit of self-interest and the requirement for a certain degree of civic "virtue" in order to sustain the democratic institutions of a free society. As one political philosopher writes:

> In spite of the considerable evidence for the proposition that the liberal-republican polity requires no more than the proper configuration of rational self-interest, this orthodoxy has in recent years come under attack from scholars who argue that liberal theory, institutions, and society embody—and depend upon—liberal virtue.
>
> The thesis that liberalism [in the old sense of a free market and an individualist and democratic politics] rests in some measure on virtue is not the palpable absurdity that the liberal polity requires an impeccably virtuous citizenry, a "nation of angels." Nor is it incompatible with the mechanical-institutional interpretation of liberalism, for clearly the artful arrangement of "auxiliary precautions" can go some distance toward compensating for the "defect of better motives." Nor, finally, does this thesis maintain that the liberal polity should be understood as a tutelary community dedicated to the inculcation of individual virtue or excellence. The claim is more modest: that the operation of liberal institutions is affected in important ways by the character of citizens (and leaders) and that at some point the attenuation of individual virtue will create pathologies with which liberal

illegal and immoral. In traditional societies, neither custom nor tradition so regard such activities.

See Michael Novak, "God and Man in the Corporation," *Policy Review* (Summer 1980): 19.

> political contrivances, however technically perfect their design, simply cannot cope. To an extent difficult to measure but impossible to ignore, the viability of liberal society depends on its ability to engender a virtuous citizenry.[7]

In Africa today, one finds many people who pursue their own happiness and self-interest with gusto. Yet the history of Africa offers little sense of a boundary between "legitimate" self-interest in the market and "illegitimate" self-interest in other key aspects of social interaction. There exist powerful forces for collective action in African society, but the boundaries of community seldom extend much beyond the clan and the tribe, an arena much smaller than that required for the realization of the full benefits of competitive markets. Corruption is in fact rampant in most African countries; governments commonly intervene politically to undermine market workings; the rule of law in many places hardly exists.* In this political and economic environment, the workings of markets offer many fewer economic benefits than elsewhere in the world. As the *1998/99 World Development Report* of the World Bank put it, "Developing countries have fewer institutions . . . and the institutions they do have are weaker than the counterpart institutions in industrial countries. These institutional deficiencies mean that markets often wither rather than thrive" in Africa and elsewhere.[8]

Economists once believed that a shortage of financial capital was at the heart of the problem of economic underdevelopment. Over the past forty or so years since most African nations achieved independence, however, the developed nations of the world have poured many billions in public and private capital into many of these nations, with little impact on economic growth (in a number of countries gross national product [GNP] per capita has actually declined since the 1960s).† Zambia, for example, for years has been one of the largest recipients of foreign aid in Africa. As the World Bank reported, if all the money directed to Zambia had simply earned a normal rate of busi-

* As I make this observation, I am spending six months in Harare, Zimbabwe. It seems that the local newspapers reveal almost every day a new story of corruption. One recent report relates how "investigations into the troubled national oil procurement company, National Oil Company of Zimbabwe . . . have been completed . . . with massive corruption again being unearthed." The investigation by the National Economic Conduct Inspectorate revealed that "the oil procurement company was in shambles," characterized by "rampant maladministration, looting, lack of control and cheating by top managers as they enriched themselves through dubious deals with some international oil agencies." See Sandra Nyaira, "Probe Reveals More Graft at Noczin," *Daily News* (Harare), September 6, 1999, 1.

† As described in a 1998 report of The World Bank, it was the set of past "beliefs about development strategy [that] structured organizations, instruments and implementation of [foreign] aid. But

ness return, the GNP of Zambia would have risen from around six hundred dollars per capita at independence in 1964 to more than twenty thousand dollars per capita today. In actual fact, the GNP per capita of Zambia was less in the 1990s than it was in 1964.[9]

If not wasted altogether, a large part of the foreign assistance directed to Africa has gone into the pockets of a ruling class, part of what a leading analyst of African economic development describes as the typical "predatory state" that exists throughout much of the continent.[10] The opportunistic habits of this ruling class—which often genuinely advances its own self-interest as a consequence—undermine the effective workings not only of governments but of markets as well. The lack of an adequate value-foundation also comes down in the end to matters of dollars and cents. Mancur Olson concluded that "the sums lost because the poor countries obtain only a fraction of—and because even the richest countries do not reach—their economic potentials are measured in the trillions of dollars." Much of this was attributable to a prevalence of opportunistic behavior, encouraged by an absence of suitable normative traditions in the presence of faulty institutional design:

> Though the low-income countries obtain most of the gains from self-enforcing trades, they do not realize many of the largest gains from specialization and trade. They do not have the institutions that enforce contracts impartially, and so they lose most of the gains from those transactions (like those in the capital market) that require impartial third-party enforcement. They do not have institutions that make property rights secure over the long run, so they lose most of the gains

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these beliefs have undergone enormous, and accelerating change" in light the dismal development record of many countries in Africa and elsewhere. As the World Bank was forced to conclude:

> Sadly, experience has long since undermined the rosy optimism of aid-financed, government-led, accumulationist strategies for development. . . . The past 20 years have seen the death of centrally planned economies, stagnation in the leading import-substitution models of the 1970s (Mexico and Brazil), and broad economic failure (if not absolute disintegration) of post-independence Africa.
>
> Developing countries with sound policies and high-quality public institutions have grown much faster than those without. . . . Put simply, failures in policymaking, institution building, and the provision of public services have been more severe constraints on development than capital markets.

See the World Bank, *Assessing Aid: What Works, What Doesn't, and Why* (New York: Oxford University Press, 1998), 9–11.

> from capital-intensive production. Production and trade in these societies is further handicapped by misguided economic policies and by private and public predation. The intricate social cooperation that emerges when there is a sophisticated array of markets requires far better institutions and economic policies than most countries have.[11]

If cultural and institutional causes undermine the economies of many poor countries, it is a corollary that rich countries must have more of the requisite foundation of values and institutions in place. Yet economists have devoted little effort over the past fifty years to the study of such influences on the economy. They have focused instead on fiscal and monetary policy, taxes, regulation, anti-trust, installation of infrastructure, and other instruments in the hands of governments. It is only recently that "culture" has begun to enter into the mainstream of economic analysis. The impetus has come mainly from the field of development studies. Economists have been forced there to take up cultural subjects simply in order to have any prospect of explaining the poor economic performance of so many countries around the world.[12] However, when it comes to the other side of the coin—the cultural roots that have made for prosperity in the United States and other highly developed nations—the literature is sparse indeed. A whole area of significant influences on the efficiency and other aspects of national economic performance has been largely ignored in mainstream economic analysis.

Culturally, as noted above, a key requirement for a market system will be a set of values in society that offer vigorous encouragement to self-interest in the market and yet maintain powerful normative inhibitions on the expression of self-interest in many other less socially acceptable areas. This all creates a paradox. How will it be possible to maintain a value system in society containing such seemingly conflicting attitudes with respect to the legitimate expression of self-interest? A free market might be described as in some ways the institutionalization and legitimation of "bribery" on a grand scale, but the social approval for acts of bribery nevertheless must not extend to every area of society.

One way of resolving this market paradox could be a religion with the following special tenets of belief. Whatever the theological grounds might be, one tenet of the religion should dictate strong approval of ordinary efforts to maximize business profits in the market. However, another tenet should impose a strong religious disapproval of the many other kinds of self-interested actions that might tend to undermine the workings of markets and to have other undesirable social consequences. When self-interest is confined to constructive market channels, the market is in fact an immensely useful instrument for organizing the production of goods and services. In its essence, the market is a system of exchange that greatly facilitates trading among any group larger than a few people. As an alternative to a political or other type of barter regime, the enormous advantages of an economic system based on the use of money and prices for the processes of exchange requires little further explanation in this day and age.

Yet, if self-interest is to reign, why should it not reign everywhere? The answer can not be found in any formal models of current economics. Even outside of economics, while there is a rapidly growing literature emphasizing that economic growth requires an adequate foundation of "social capital," this literature says little about the means of creating and sustaining such a foundation.* How does a social climate of "trust" come into existence? How is a cultural environment of honesty in economic transactions established and maintained? Admittedly, a good individual reputation for honesty and fair dealing is important in any business or political system where social interactions occur repeatedly, but a "reputation" need be upheld only so long as it serves self-interest. A good reputation can be faked in the short run and then violated whenever convenient. Good reputation is not the same as a culture in which trust is ingrained as a generalized social expectation and reality.[13]

Describing such a culture is difficult in the ordinary language of the social sciences. It may help to turn to the artistic imagination. It is said that the eighteenth century was the century of France; the nineteenth, of England; and the twentieth, of America. Commenting in 1872 on the real sources of England's advance in the nineteenth century, George Eliot winds up the novel *Middlemarch* with the following words: "The growing good of the world is partly dependent on unhistoric acts; and that things are not so ill with you and me as they might have been, is half owing to the number who lived faithfully a hidden life."[14] Good acts that are "hidden" do little to advance reputation as might then contribute to individual private gain. Eliot

* The necessity of a culture that sustains economic growth also does not mean that there is only one such culture. Historian David S. Landes, in his recent *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (New York: Norton, 1998), asserts that "if we learn anything from the history of economic development, it is that culture makes all the difference." In a review of this book, Columbia University economist Jagdish Bhagwati finds that Landes puts too much emphasis on the specific role of "underlying values as defined by the Judeo-Christian, and especially the Protestant, universe." Bhagwati concludes that "the precise role of culture in economic behavior remains elusive. The encouraging truth appears to be that growth-inducing institutions . . . are resilient and compatible with a range of cultures." See Jagdish Bhagwati, "The Explanation," *New Republic,* May 25, 1998, 32, 34, 36.

Yet, in support of Landes, one might note that the Judeo-Christian value system spread around the world in the twentieth century in predominantly secular forms. One would be hard pressed to find any nation that has been economically successful without having adopted a large dose of "modern" values, but these are values that originated in large part in European civilization, where they were shaped in significant degree by Judeo-Christian religion (which now exerts its most powerful influences in such secularized forms).

was reminding us that a successful society may require many people who do "the right thing" for no other reason than that.

No less an authority than James Q. Wilson has written that human nature involves both a "self-interested" side and an "altruistic" side. Contrary to the almost exclusive emphasis on the former in economic analysis, Wilson concludes after a lifetime of close observation of political and economic affairs that "on balance, I think the other-regarding features of human nature outweigh the self-regarding ones." There exists in most human beings a tendency "to sociability and hence to morality, although it is only a disposition and not a rule." Much of life cannot be explained in ordinary economic terms. For example, "why do women have children? There is no economic gain to them and much pain in the process." It is not only family life but the economic life of whole societies that may depend on these social elements that lie outside traditional economic forms of explanation.[15]

Economists have particular difficulties with such an area of inquiry because almost inevitably it brings up the subject of religion, and the real basis for religious belief. The practical consequences of religion can be integrated easily enough into economic analysis—treating religious values as a key influence in shaping a given individual structure of "preferences." But the sources of religious belief represent a much less familiar and much less comfortable ground for economic analysis. Yet the successful workings of an economic system may depend heavily on the specific character of religious beliefs that serve to provide a normative foundation for the market. Achieving a more efficient economy may depend on having a more "efficient" religion.

A surprising possibility is thus raised: it might not be economists but theologians who are the most important members of society in determining economic performance. The nations that grow most rapidly may be the nations with the "better" religions, the religions that are able to establish a set of cultural norms that create a higher level of social capital for their economies—religions that, among other things, resolve the market paradox in a satisfactory way.[16] However, a still more radical possibility exists. It may that economists have themselves been acting in the requisite religious capacity. Startling as the thought must be to most current economists, it may be that their most important social role has been as preachers of a religion with the special character that it acts to uphold the normative foundation required for a rapidly growing modern economy.

Indeed, in this book I will make precisely this argument. Economists played their most important role in American society in the twentieth century as theologians and preachers of a religion. Religion has long provided evidence that it is capable of inspiring a powerful dedication to work for the common good, ranging from the acts of Christian martyrs who sacrificed their lives to less extreme forms of sacrifice of individual interest. But the defense of a market economy cannot rest on any ordinary religion. It requires a religion with the particular characteristic that it advances the pursuit of self-interest in appropriate domains but tightly restrains it in others.

As is argued in this book, the mainstream "economic religion" in the United States today (it has not always been true, as, for example, in the progressive orthodoxies early in the twentieth century) offers such a market sustaining set of norms. Leading economists teach the acceptability of self-interest in the market but the "sins" of similarly opportunistic behavior in "politics." Within the marketplace, economists warn of the dangers of a tolerance for "corruption" in economic interactions. Economists are strong advocates of a rule of law that rigorously defends property rights and promotes adherence to contracts, again dependent on a cultural environment of long-term honesty and trust. All these things are reinforced by a religious/moral system that encourages self-sacrificing actions for the greater good of "the market system."

The manner in which economists have accomplished the necessary delicate balancing act between self-interest and commitment to a greater public good will be analyzed in full detail in subsequent chapters. However, the essence of the argument can be previewed here. In economic religion, the existence of a market economic system itself serves a religious purpose. Hence, while perhaps objectionable in other contexts, the full expression of self-interest within the setting of the market is therefore blessed by a religious cause. The religious purpose of the market is to ensure maximal efficiency in the use of the material resources of society, and thus rapid movement of American society along a route of economic progress in this world.

Economic progress is so important because progress is seen as the path to the attainment of a new heaven on earth, to a secular salvation. If the love of money is, as many have believed, the root of all evil, the end of scarcity and the arrival of an era of full material abundance can mean the end of evil in the world. The Fall in the Garden of Eden will finally be reversed, now in our own age by the application of economic knowledge to sustain rapid economic progress. Because the market in this gospel has such an exalted function in society, it is the duty of every follower in the faith to defend the market system, forgoing the opportunistic pursuit of a large number of potentially advantageous but "unethical" actions, actions that might in fact serve the self-interest of the individual, although undermining the efficiency of the market.

There could be other religious paths to the same outcome. God (or his representatives in the church on earth) might decree that the pursuit of self-interest within the marketplace is within the divine plan, but other forms of self-interest outside the market—actions that would tend to subvert its workings—would violate God's commands.[17] In the modern era, however, as older religions have had less influence in the conduct of the affairs of society, such a traditional religious blessing for the market system would have been less persuasive to a secular society. It has instead fallen to a new priesthood in the economics profession to provide a normative foundation for the market, now necessarily taking a secular religious form.

In contrast to the tenets of this modern economic religion, those of many religions throughout history have condemned the pursuit of self-interest in almost every domain of society, including the market.* Marxism and socialism had such worldwide appeal partly because they had so many predecessors in history (and contrary to their claims, many of the real effects and much of the appeal of Marxism and socialism were conservative, acting to perpetuate premodern forms of existence—communism in the former Soviet Union thus tending to continue many of the old arrangements of Russian czarism in the face of looming market and democratic forces in the early twentieth century). It takes a special religion with special theological characteristics to resolve the market paradox. However much at odds with their own self-image, economists in the United States (and perhaps other European and non-Western countries, but that is a subject that will have to be studied more closely at another time and place) have played their most important role in society in establishing the necessary cultural foundation—the

* And many Americans today as well still feel a deep ambivalence about the potential impact of market motives and incentives on other aspects of their lives. A three-year research project "Religion and Economic Values," at Princeton University surveyed more than two thousand people. Robert Wuthnow reported the results:

> In the survey, 89 percent agreed that "our society is much too materialistic." 74 percent said that materialism is a serious social problem; and 71 percent said society would be better off if less emphasis were placed on money. Many of the people we talked to described the corrosive effect of materialism on their families.
>
> Most of us are quite sincere when we express concern about our society's pervasive materialism. We sense that our wants are spiraling out of control. We know there is more to life than having nice things. For many of us, a religious factor may also prompt our misgivings. We are dimly aware of biblical teachings contrasting the worship of God and mammon. When journalists write of greed, we remember that religious authors have had something to say on the topic as well. Secular as our culture is, 71 percent agree that "being greedy is a sin against God."
>
> Thinking that materialism is a serious problem, however, seems to have little connection with how we actually live our lives. Money and material possessions are, in fact, among the things we cherish most deeply. . . . 84 percent admitted "I wish I had more money than I do."

See Robert Wuthnow, "Pious Materialism: How Americans View Faith and Money," *The Christian Century,* March 3, 1993, 238–39.

social capital—in support of the competitive market as an institution for broad social benefit.*

BEING A PROFESSIONAL

The dichotomous treatment of self-interest as found in economic morality—blessing it in some realms of society, condemning it in others—is illustrated by the ethics of economic professionalism. Although most professional economists actively encourage the assertion of self-interest in the market, in their own role in society as economic professionals the expression of self-interest in many forms is disapproved. The economist can of course work for money. However, the economist as professional (admittedly an ideal sometimes more professed than upheld) is ethically bound in his or her professional capacity to reject offers of money to bias or distort economic advice in favor of one or another party—even if there is no chance of this being discovered, and it would in fact genuinely serve the self-interest of the economist. The morality of professionalism is not that of the marketplace but of the priesthoods of old whose members have always been able to accept money for their services but only in limited and appropriate circumstances.

Like some priests of the past, some economists today are motivated in practice by the opportunity for private gain—for cushy university appointments, lucrative consulting contracts, or other personal benefits. Yet many economists have been sacrificing and continue to sacrifice monetary gain in the pursuit of religious truth, in this case the truths of economic efficiency and the path of material progress in society. Even in a market economic system grounded in the pursuit of individual self-interest, it is necessary to have such a priestly class, religiously dedicated to protecting the market system

* A fascinating example of a priesthood that failed to resolve the ethical tensions with respect to the market and instead acted powerfully to inhibit economic growth is found in China. In the 1400s China was not only the most economically developed society in the world but also a maritime power, exploring as far as the eastern coast of Africa with large and technically sophisticated sailing vessels, led by Admiral Zheng He. These efforts, however, ran afoul of the Confucian scholars who had great influence in the court of the Chinese Emperor. Eventually, they succeeding in halting the voyages of exploration, imposed a ban on construction of new ships, and even destroyed the maritime records. These actions were partly a reflection of the tenets of Confucian religion: "The dominant social ethos in ancient China was Confucianism and in India it was caste, with the result that the elites in both nations looked down their noses at business. Ancient China cared about many things—prestige, honor, culture, arts, education, ancestors, religion, filial piety—but making money came far down the list. Confucius had specifically declared that it was wrong for a man to make a distant voyage while his parents were alive, and he had condemned profit as the concern of 'a little man.' " See Nicholas D. Kristof, "1492: The Prequel," *New York Times Magazine,* June 6, 1999, 85.

against political rent seeking and various other potentially destructive forms of individual opportunism.

However, as I will also explore in this book, today there is a crisis of social legitimacy facing the members of the economics profession, and economic religion more broadly.[18] Enormous material advance has in fact been achieved by nations in the developed world in the modern era, accelerating in the twentieth century.[19] It is more and more being recognized, however, that the main corpus of economic theory does a poor job of explaining all this economic growth and development.[20] As will be examined in later chapters of this book, the members of the economics profession have themselves been declaring with increasing frequency that their own past "scientific" efforts to understand the mechanisms of economic growth and development have fallen well short of expectations.*

Yet the more important crisis now facing economics reflects deeper concerns. There is a wide loss of faith today in the redeeming benefits of economic progress itself. At the beginning of the twentieth century, there was a sure conviction throughout the Western world that the solution to the material problems of the human condition must also mean the solution to crime, drug addiction, suicide, hatred, and war and indeed a general spiritual transformation in the human condition for the better. If the market (or any other economic system) could guarantee continuing rapid economic growth, it would be the route to salvation in this world.

People had behaved so badly throughout previous history, it was thought in those more optimistic days, because they had been driven to it by material deprivation. In a world always before characterized by severe material shortages for most people, it had seemingly been necessary to cheat and steal simply in order to survive at all. Wars between nations were mostly the product of competition for land and resources. All this would be changed, however, when modern economic growth and development had provided a full abundance of every good and service for all.

* Economists, for example, were once confident that they could scientifically model an economy and predict with reasonable accuracy its future course. Illustrative of a broader loss of confidence in society in the technical capabilities of economists, repeated failures of prediction have now yielded a public attitude of deep skepticism toward such efforts by economists. Economics writer Steven Pearlstein recently commented on the follies of the "hapless forecasters" among the members of the economics profession. See Steven Pearlstein, "An Economy That Just Keeps On Growing," *Washington Post,* May 2, 1998, A1. Advising on the usefulness of economics to investors in the stock market, the former head of the Fidelity Magellan Fund, Peter Lynch, declared that "if you spend over 14 minutes a year on economics, you've wasted 12 minutes." Quoted in William Power, "Heard on the Street," *Wall Street Journal,* December 3, 1992, C1.

Yet, as matters turned out, the terrible wars, genocides, and other events in the history of the twentieth century belied this faith.[21] A nation such as Germany could be a scientific leader of the world, have a modern economy with a much higher standard of living in comparison with most previous conditions of human existence, and yet be taken over—let us not mince words—by pure evil. All this was virtually incomprehensible in the rational terms of the modern religions of economic progress. Looking back at these awful events, even if the claims of economists to show the true scientific (rational) route to economic advance are still accepted, society is less inclined to recognize the religious authority of the economic priesthood.*Apparently, the search for a new heaven on earth will have to be abandoned, or an alternative route of secular salvation outside material realms alone will have to be discovered.

Then, the very practical functions served by economists—priestly functions in defense of the common good that may be little related to the formal contents of high-level economic theory—may thereby also be jeopardized. This is a significant problem not only for the members of the economics profession but for society as a whole. Society will always require the services of some kind of priestly class, economic or otherwise, in order to assist in fending off the widespread rent seeking and other multiple forms of opportunism that always threaten the bonds of social cohesion. If economists (aided by other social scientists) no longer have the requisite social authority to perform this role, to whom will it fall?

As these observations suggest, I believe that the American economics pro-

* From the vantage point of the end of the twentieth century, historian Gertrude Himmelfarb summarized the new thinking about progress.

> Science and technology, like progress itself, can be morally equivocal. It was not a millenium ago but in this very century that we experienced one of the most monstrous events in human history, the Holocaust, and discovered, not for the first time, that both science and technology can be put to the most heinous uses. We have also been obliged to reconsider the Enlightenment, which bequeathed to us many splendid achievements but also some dangerous illusions.
>
> In our post-Enlightenment world, we have had to relearn what ancient philosophy and religion had taught us and what recent history has brought home to us: that material progress can have an inverse relationship to moral progress, that the most benign social policies can have unintended and unfortunate effects, that national passions can be exacerbated in an ostensibly global world and religious passions in a supposedly secular one, and that our most cherished principles (liberty, equality, fraternity, even peace) can be perverted and degraded—that, in short, progress in all its spheres, not only in science and technology, is unpredictable and undependable.

See Gertrude Himmelfarb, "Two Cheers (or Maybe Just One) for Progress," *Wall Street Journal,* May 5, 1999, A22.

fession is on the verge of fundamental change. The profession emerged at the end of the nineteenth century as part of an earlier wave of basic change in American society, led by economic, political science, and other theorists of the American Progressive movement. The economics profession was part of a general effort to develop the institutional apparatus of professional expertise, then considered an essential element in achieving the scientific management of society, a critical step on the route to heaven on earth. In the university world, for example, as the teaching of technical skills in many fields took the place of the old mission of Protestant education; the knowledge provided by the modern university would now lay the basis for a new salvation in this world. One religious role for the university had in effect succeeded another. Superceding the institutional Christian churches of old, as George Marsden comments, Progressivism now made "the nation its church"—and Washington, D.C., would become in effect a new Vatican (and like the Vatican, Washington would be a unique governing jurisdiction separate in its sovereignty from the rest of the nation).[22] Indeed, the efforts of Progressive Era social scientists paved the way for the full development of the American welfare and regulatory state of the twentieth century, headquartered in Washington.[23]

However, as the twentieth century ended, the old progressive ideas had about played themselves out. There is a search now in many quarters for new models of governance, including a working out of new roles in the governing process for professional groups such as economists.[24] As I will argue in the present volume, economists may themselves have to rethink at a fundamental level what it means to be a member of a profession such as economics. Economists may have to learn to think of themselves more like members of the priesthoods of old—the defenders of a core social ethic grounded in a religious truth—than as research scientists.

An important concern of this book thus is the very social meaning of "being a member of the economics profession." There have been a number of historical studies (mostly by noneconomists) of the development of the idea of professionalism in the Progressive Era and its later evolution.[25] However, typical of a lack of introspection with respect to their own role in society, economists themselves have been rather unreflective about the social meaning and consequences of their professional identities.[26] If asked what it means to be an economic professional, many current economists would probably be somewhat surprised or puzzled by the question. They might simply assert that to be a professional economist means to pursue scientific truth with respect to the operation of the economy and to apply this truth to improve economic performance and public policy more generally.

However, this answer would be a strained one for most economists. It would assert a collective purpose and social idealism in the role of the economist as professional at odds with the "methodological individualism" and "rational actor" forms of analysis characteristic of economic thinking in almost all other domains. A more consistent answer for an economist would be that the role of the economic professional means using the social prestige of professionalism to get a good job with reasonable pay, interesting work, and a comfortable surrounding environment—asserting the special status of a professional as a good way to maximize the individual well-being (the "utility") of an economist.

As in other collective action situations, it is very unlikely that the efforts of any one economist will make any difference to the future overall performance of an economic system as large as that of the United States. So substantial shirking on economic work effort (especially after receiving tenure) would also be a logical response for an economic professional acting according to the standard behavioral assumptions of economic models. Why should any economist work day and night to discover economic truth? Why should an economist try to "do his or her small part in society" in the larger struggle to adopt sound economic policies that promote growth and development around the world? Just as the act of voting by an individual in an election will virtually never influence the election outcome, the actions of any individual economist will be virtually meaningless in terms of any broader economic outcomes in society.

Yet, if not all economists, there have been many past and present economists who are in fact strongly motivated to do good in the world (if perhaps often falling well short in practice). How can economists justify telling others to actively pursue their self-interest as the best way to serve society, when many of them behave otherwise? The answer, it would seem, will have to be found in some form of "noneconomic" explanation (or one that is "economic" but in a much broader sense than is traditionally offered). Many economists—as well as many millions of ordinary citizens of nations in the developed world—have in fact been true believers in an economic religion of progress that promised finally to reverse the consequences of the Fall in the Garden of Eden. This religion had the additional practical consequence that it resolved the market paradox and in this way promoted markets even while sustaining the normative foundations of modern economic professionalism.

CAMBRIDGE VERSUS CHICAGO

In pursuing in further detail the questions raised thus far, I will develop my analysis by examining the theories and writings of a number of modern

American economists from the perspective of "economic theology." I concentrate on the history of the American economics profession in the twentieth century and mainly the years since World War II.* For the first two or three decades after this war, American economics was dominated by ideas originating in Cambridge, Massachusetts. Paul Samuelson was a professor in the economics department at the Massachusetts Institute of Technology (MIT) and the leading economist at Cambridge. His *Foundations of Economic Analysis* and other writings led a methodological revolution in American economics in the years after World War II, the main reason that in 1970 Samuelson was the first American and third winner overall of the Nobel Prize in economics (the prize was not given in economics until 1969, when Ragnar Frisch of Norway and Jan Tinbergen of Holland became the first recipients). In the years following Samuelson's arrival, MIT would become the most prestigious economics department in the United States. If MIT had been founded as a school of engineering, it was perhaps fitting that the MIT economics department would now become the leading American advocate for a new scientific form of social engineering of the American economy on a grand scale.

Yet, among Samuelson's writings, it was not the *Foundations* that had the greatest influence on American society at large. The closest thing to a bible of economics during the several decades after World War II was Samuelson's introductory textbook *Economics.* Hence, as an especially illuminating means of exploring the implicit religious messages contained in the writings of post–World War II economics, Parts I and II below focus on the religious elements of *Economics.*

First introduced to the market more than fifty years ago, *Economics* is now in its sixteenth edition (with a co-author, William Nordhaus, in the more recent editions), has sold more than 3.5 million copies, and has been translated into at least forty-six languages.[27] *Economics* created the model emulated in almost every introductory economics textbook for the following fifty years.[28] Although it has not led the market since the 1960s, *Economics* was until then the leading textbook in annual sales.[29] *Economics* both promoted and reflected a value system of rationally directed progress that was dominant in American society from the end of World War II into the 1960s, and is still very influential today. If economists have in the end been priests of a secular religion, the "theology" of economics was particularly well expressed in *Economics.* How-

* In my previous book on economic theology, *Reaching for Heaven on Earth: The Theological Meaning of Economics,* I explored the interaction of ideas about economics and theology as far back as the ancient Greeks. In contrast to the current volume, much of that book covers the history of economic thought prior to the twentieth century.

ever, consistent with the stated goal that economics should be "value neutral," the powerful value elements were for the most part overtly suppressed and instead would now show up in an underlying and implicit fashion.

Yet, as will be demonstrated in Part II of this book, many of the key conclusions of *Economics* do not follow logically, if implicit theological assumptions are not made to sustain the argument. It is as though a mathematician had provided the proof of a theorem but had left out one-quarter of the steps necessary to the end result—and in *Economics* the missing steps were typically the ones that belied the value-neutral claims of the book. If we penetrate below the surface in this way, *Economics* is revealed to be a religious work grounded in articles of progressive faith, as well as a conventional analysis of economic forces at work.

Since *Economics* has had sixteen editions, it is a bit misleading to speak of it as one book. For the purposes of the analysis of this book, I will focus on the first edition.[30] It was the publication of this edition in 1948, and its almost immediate success, that set the stage for not only Samuelson's subsequent efforts but also those of other introductory textbook writers in economics. While Samuelson later made extensive revisions to some sections, and has added new topics as the areas of greatest current policy interest have shifted, the core ideas and values have remained fairly consistent through successive editions of *Economics.** Indeed, Samuelson stated in 1992 that "I do not perceive that my value-judgment ideology has changed systematically since the age of 25."[31]

From the 1960s onward, social values in American life would change rapidly. The value system of *Economics* no longer fit the prevailing American ethos as well as it had in the first two decades of its existence. At the same time a new school of economics based at the University of Chicago took center stage in American intellectual life. It was not a coincidence, as I will argue below, that Chicago replaced Cambridge as the focal point for American economics.

* There may also be an advantage to using the first edition, since Samuelson may have been somewhat more revealing there of his own foundational values. It was written at a moment of great postwar optimism about the capacity of experts to manage society through the use of professional knowledge such as provided in *Economics.* Over time, while these values still remained at the core of the book, there have been greater doubts. Samuelson has always been one to pay attention to changing trends, and it has become perhaps more difficult to disentangle his core philosophy from other materials.

Yet Samuelson commented in October 1997 that on his rereading the original 1948 edition, it had "been a pleasant surprise to discover how much of the original verve and relevance is still there." He noted that other introductory-textbook authors had followed in the path of ideas that "had first entered the public domain in the present commemorative volume." Samuelson now regards his textbook as a grand "cathedral" he built for the economics profession—a kind of personal monument for which a religious metaphor is appropriate. See Samuelson's new foreword to the commemorative reprint of the first 1948 edition of *Economics* (New York: McGraw Hill, 1998).

Chicago exhibited a hostility to many of the projects of the American progressive tradition just as progressive ideas and institutions were losing favor in American society. If MIT had been the center in the United States for the evolving self-concept of economics as a "science," the founder of the Chicago school, Frank Knight, rejected both the goal itself and the practical feasibility of the scientific management of society. It was perhaps symbolic of the differences in viewpoint that some of the leading economists at Chicago wrote in old-fashioned prose comprehensible to the ordinary person.

In this book I also explore the fundamental values expressed—the underlying "theology"—in the economic thinking at Chicago. With origins going back to the 1930s, and as might be expected for a school that is nearing seventy years old, there is greater diversity of thought among the various practitioners of Chicago economics than in the writings of a single economist such as Samuelson. Chicago economics falls in the tradition of the "protesters" against the mainstream orthodoxies of the times—one might thus see the Chicago school as a modern, secular continuation in the tradition of Protestant Reformers such as Martin Luther and John Calvin. Indeed, the connections to Protestant theology found at Chicago go beyond this sociological observation. The welfare and regulatory state of the twentieth century has in many respects served as the modern equivalent of a church. If progressive religion has served as the gospel of this national church of America, the Chicago school of economics has protested that American Progressivism preaches a false religion, and that the church itself has been corrupted to serve special interests and other private purposes. Washington, D.C., is the new Rome where the original American virtues have been lost.

In condemning both the sustaining faith and the institutional forms of the modern welfare and regulatory state, Chicago has also promoted a new libertarian trend within economics. It is a libertarianism that has closely mirrored a broader spread of individualistic values in American society since the 1960s, going well beyond economic affairs. This new individualism is manifested in no-fault divorce, abortion "choice," student "liberation" from traditional college supervision, increased sexual freedom, and the relaxation of many other social constraints on individual behavior. Chicago economics did not create these trends but—much as Samuelson blessed progressive values—the Chicago school has put its priestly imprimatur on a newly libertarian set of values in American life.*

* A recent analysis of basic trends in American politics since the 1960s finds that there has been a fundamental shift in power to "citizens groups" associated with the civil rights, environmental, feminist, antiabortion, and other causes. The members of such groups "place aesthetics, morality, rights and

As the twenty-first century begins, it seems increasingly clear that a new religion, belief system, guiding paradigm—whatever one chooses to call it—will be required to replace the past role of the progressive gospel of the twentieth century in shaping and legitimizing the governing institutions of American society. One might even go so far as to say that in some fundamental sense the idea of elevating science to the status of a religion—the "modern project" of the past three hundred years in the Western world—increasingly seems to be failing.[32] Despite long-standing wide hopes, it has proved difficult to transfer the extraordinary powers of science in explaining matters of physical nature to a corresponding set of explanatory and predictive powers in human society. Whatever its astonishing successes in creating a power to control physical nature for human purposes, the scientific method has been much less successful in corresponding social efforts. Science seemingly cannot provide the complete explanation for all questions important to human beings. And as more and more people also now seem to be saying, this is perhaps fortunately so.

THE PLAN OF THE BOOK

This book is organized as follows. In Part I, I examine the values of the American Progressive movement at the end of the nineteenth and the early part of the twentieth century. Progressives saw in economic progress the route to a new heaven on earth, a future of full material abundance where past evils of human behavior resulting from the fierce competition for economic resources would finally be abolished. Part II shows how Samuelson in *Economics* adapted this American secular religion—a progressive "gospel of efficiency," as the historian Samuel Hays once called it—to the new intellectual climate of the United States in the years after World War II.[33]

Economists at the University of Chicago played a central role in showing

other nonmaterial political objectives above the pursuit of economic gain or enhanced physical security." As their political influence has grown, the U.S. Congress has become "less concerned about the needs of business and more concerned about how to protect the earth and preserve our souls." This is a reflection of the fact that these predominantly "liberal citizen groups . . . don't share the view that the solution to most of our problems is more prosperity." In understanding the decline in political power of the AFL-CIO, and the rise of the Sierra Club, "America's embrace of postmaterial values lies at the foundation of the changes observed." If Chicago economics captured the declining faith in traditional progressive themes more accurately than other parts of economics, it also reflected more closely a libertarian trend in American social values associated with some of these same "postmaterial values." See Jeffrey M. Berry, *The New Liberalism: The Rising Power of Citizen Groups* (Washington, D.C.: The Brookings Institution, 1999), 36, 37, 86, 119.

the fundamental deficiencies of *Economics* and other writings by progressive economists grounded in similar foundational values and assumptions. Part III of the book follows the development of the Chicago school of economics, including the value systems—implicit theologies, as this book finds them—of some of its leading members. It shows how prominent figures in the Chicago school have played a central part in the development and legitimization of a new individualistic and libertarian ethic in American life since the 1960s.

In that same period the neoclassical framework of economic analysis—the core ideas as developed for popular consumption in Samuelson's *Economics*—has been undermined by the theoretical framework of a "new institutional economics."[34] A new institutional school today has become an important part of American economic thought, finding many proponents among the faculty members at the most prestigious of American economics departments.[35] As will be examined in Part IV, the new institutional economics, including a new appreciation of the economic significance of religious beliefs, may also point the way to the future of economics in the twenty-first century. For readers outside the economics profession, Part IV can also serve as a brief overview of a basic redirection toward institutional concerns that has taken place within American economics during the past thirty years.

Finally, in Part V I further develop the view that, although economists have served an important function in generating a working knowledge of the behavior of the U.S. and global economic systems, a still more important role has been in providing a defense for certain values in American society. The members of the economics profession have helped to provide a value foundation of civic-mindedness grounded in a religious belief in the redeeming benefits of economic progress. For much of the twentieth century this value-foundation had the particularly important property that it approved the expression of self-interest in the market even while successfully denying legitimacy to many other forms of harmful "opportunism" in other areas of society. Rather than being value-neutral technicians, members of economic schools since Adam Smith have been the most influential priests of the modern age. It has been their special religious task to find a satisfactory moral resolution to "the market paradox."

In the Conclusion I speculate briefly on how the self-image and the practices of American economics may be transformed in the twenty-first century, as the long-term trends explored in this book take greater hold in society.