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Economics with Romance

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DWIGHT R. LEE

In the preceding article, “The Soul of Classical Liberalism,” James M. Buchanan argues that classical liberals should articulate a vision of freedom and spontaneous order as emotionally animating as the vision proffered by the advocates of state intervention and social constructivism. Classical liberalism has a “comprehensive vision” of the ideal of social harmony and cooperation (its “soul,” in Buchanan’s account) that transcends the logic of how markets promote economic efficiency. Yet classical liberals have been far less willing than their ideological opponents to venture beyond the logic of their position to emphasize its soul when engaging in intellectual combat—understandably, given the advantage classical liberals have over statisticians when the battle is joined on the ground of economic logic.

Buchanan is surely correct in arguing that the case for classical liberal principles will never be widely persuasive if made entirely in terms of economic science. To paraphrase Joseph Schumpeter, efficiency is a poor substitute for the Holy Grail.¹ The science is necessary, of course, and is sufficient to convince those with a theoretical turn of mind of the superiority of decentralized decision-making organized through market interaction. Few people, however, find calculus and graphs the most persuasive form of communication. Most people are more readily persuaded by concrete, emotionally compelling examples than by abstractions. Unless the economic logic providing the foundation of classical liberalism is presented in ways that have emotional appeal (some soul), the arguments for more reliance on freedom disciplined by market competition will be trumped by emotionally alluring claims of

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the good results to be achieved through more state action. Buchanan may like his “Politics without Romance” (1999a), but he makes a strong case for putting some romance into economics.

Yet his argument raises an interesting question. Does the economic model that supports classical liberalism lend itself to a vision as emotionally compelling as the one the statist put forth? I argue that it does not. But my intent is not to promote pessimism regarding the enterprise suggested by Buchanan. Quite the opposite. I think Buchanan’s enterprise is crucial in the battle between the ideas of freedom and those of coercion. Although the amount of “soul” that can responsibly be injected into the economics of classical liberalism has definite limits, economists are often guilty of unnecessarily squeezing the soul and the romance out of their analysis.

Rooted in Reality

The power of the classical liberal position springs from understandings firmly rooted in reality. By taking reality seriously, classical liberals necessarily restrict their ability to substitute romantic fantasizing for hardheaded analyzing. Certainly no classical liberal, and least of all Buchanan, would argue against that restriction, and the type of soul he has in mind does not require romantic fantasizing. But the constraints of reality do limit our ability to construct arguments that appeal to those who find soul to be the crucial factor in an acceptable ideology. Consider some of the basic economic understandings of classical liberalism.

- We can accomplish more by recognizing the limits of the possible. As F. A. Hayek observed, “it has always been the recognition of the limits of the possible which has enabled man to make full use of his powers” (1973, 8).² And all limits are ultimately rooted in the reality of scarcity.
- Because of scarcity, the best we can do always leaves some wants unsatisfied, some noble deeds undone, and some social injustices unremedied. No matter how much progress we make, serious problems will persist and agonizing trade-offs will remain.
- The best hope for progress is not through heroic action by superior people attempting to solve big social problems directly, but by ordinary people making mundane and marginal adjustments to market incentives in pursuit of their own objectives.

1. Schumpeter’s exact statement is, “The stock exchange is a poor substitute for the Holy Grail” (1950, 137).

2. A similar point was made by Larry Ruff (1970), who, in comparing the task of pollution control with that of sending men to the moon, stated, “If physical scientists and engineers approached their tasks with the same kind of wishful thinking and fussy moralizing which characterize much of the pollution discussion, we would never have gotten off the ground” (85).

- The most effective way to improve the world is not by trying to improve people but by improving the incentives that people face. As George Stigler wrote, “Economists have seldom spent much time exhorting individuals to higher motives, or more exemplary conduct” (1982, 5). When avoidable problems arise, “it is social institutions that one should castigate: men respond to these situations in predictable, and probably unchangeable, ways” (6). The advantage that classical liberals see in the market is not that it makes people better but that it provides the information and motivation (incentives) for ordinary people to cooperate with those for whom they bear little interest or regard.

These classical liberal understandings give economics a clear advantage in arguments based on logic, but they put it at a disadvantage when the case is made on the basis of soul.

Lack of Emotional Uplift

Economics does not lack important ingredients of a message that includes soul and romance. The economist’s concern for improvement and progress, and the central role of obstacles to that progress, would seem to make it possible to communicate economic insights compellingly. Most of us are touched emotionally by stories of struggles against obstacles, struggles that sometimes end in success but often in failure. But seldom do the economic narratives convey much, if any, of the human drama that draws people into sympathy with the lesson being taught. The compelling element missing in the stories economists tell is the human urge to improve oneself, to grow in virtue and to transcend the ordinary. Economists emphasize the advantage of economizing on virtue by the establishment of incentives that motivate good conduct with a minimum amount of noble human traits. This perspective was best expressed by Dennis Robertson when he said, “If we economists mind our business, and do that business well, we can, I believe, contribute mightily to the economizing, that is to the full but thrifty utilization, of that scarce resource Love” (1956, 154). In other words, let’s make the most of the economic man.

Economists are content with *homo economicus* because they understand that he is capable of doing enormous good when faced with the right incentives. Unfortunately, *homo economicus* does little to inspire trust, love, concern for others, or any of the other nobler feelings that are an important part of the human experience. As Kenneth Boulding observed, “No one in his senses would want his daughter to marry an economic man, one who counted every cost and asked for every reward, was never afflicted by mad generosity or uncalculating love, . . . economic man is a clod” (1969, 10). Visions that focus on the capacity of economic man to do good, no matter how great the good, will never have the emotional uplift of those that see good flowing from the moral elevation of the people.

We can appreciate this difference by contrasting two stories, one based on a historical event and the other purely fictitious. First the historically based story.

In the early 1800s many prisoners were being shipped from England to Australia. The British government contracted with ship captains to provide the transportation, and paid them a specified amount per prisoner. Unfortunately, the survival rate of prisoners was only about 50 percent. This death rate was almost entirely the result of overcrowding and poor treatment, and it prompted many moralizing appeals in favor of more humane treatment. But the moralizing appeals had no effect. The survival rate remained about 50 percent. Finally an economist, Edwin Chadwick (1862), struck an effective blow for decent treatment of prisoners by accepting that ship captains were economic men and recommending a change in incentives. Instead of paying the captains for the number of prisoners who walked onto ships in England, Chadwick recommended paying for the number who walked off the ships in Australia. The change was made, and the survival rate jumped immediately to 98.5 percent.³

Everyone is familiar with Charles Dickens's story *A Christmas Carol*. In the opening chapter, Ebenezer Scrooge is described as "a squeezing, wrenching, grasping, scraping, clutching, covetous old sinner!" Although some economists might disagree, this passage is not a bad description of economic man, at least as understood by most people. In due course, as a result of Scrooge's encounter with the ghosts of his former business partner and the spirits of Christmas past, Christmas present, and Christmas future, he experiences a moral awakening and becomes a thoroughly decent human being, anxious to help those less fortunate than himself. The poignancy of Scrooge's transformation is highlighted by the change in his attitude toward his employee Bob Cratchit and Cratchit's family. Initially, Scrooge is concerned only with how much work he can squeeze out of Cratchit at the small cost, and he has no sympathy for Cratchit's financial inability to obtain desperately needed medical care for his crippled son, Tiny Tim. But having been allowed by the Ghost of Christmas Present to secretly observe the Cratchit family's Christmas dinner, Scrooge becomes deeply concerned about Tiny Tim's prospects, asking the spirit "with an interest he had never felt before" if Tiny Tim would live (Dickens [1843] 1997, 52).

This story is emotionally powerful, far more so than the story about sea captains treating prisoners more humanely, even though the real-world sea captains clearly did more good than the fictitious Scrooge. But imagine that an economist had written *A Christmas Carol*. The story would have ended with Scrooge paying for Tiny Tim's operation, not because he became a better person but because of a change in the tax

3. Chadwick may have exaggerated his role in the incentive change, and its effect. Russell Roberts has investigated this case and in verbal communication told me that he has found that the incentives were changed by putting physicians on board the prisoner ships and by paying either them, the ship captains, or both (it isn't clear) on the basis of how many prisoners survived the trip. This change did significantly increase the survival rate, but Roberts has not found evidence that it increased as much as Chadwick claimed.

code allowing more generous write-offs for charitable contributions. What a story that would have been! Does anyone suppose it would still be selling well almost 160 years after it was first published?

More “Soul” and Substance

I am not arguing that classical liberals should abandon the very foundation of our ideology to increase its appeal. Nothing would be gained by destroying the value of our worldview in order to gain its acceptance. There is real virtue in recognizing the power of the incentives created by the social institutions of constitutionally constrained government, private property, and market exchange to lead economic men, clods that they may be, to generate social outcomes far better than the most virtuous people could generate without those institutions. And there is real virtue in struggling to protect and promote classical liberal social orders by advocating increased reliance on market incentives to accomplish good.

One must recognize, however, that staying faithful to classical liberal principles does limit our ability to instill those principles with soul. The statists will always have the advantage in competing on the basis of soul. The reality-based implications of sound economics will never appeal to those searching for little more than easy inspiration and emotional uplift. And those implications are easily dismissed by demagogues as the unwarranted conclusions of people who lack compassion and concern. The one thing that can be done better by selectively ignoring the limits of scarcity is the construction of a vision of social possibilities that will seem far more humane and inspire far more emotional fervor (have more soul) than any vision based on scarcity.⁴ Nonetheless, while continuing to recognize unavoidable limits, we can do more to infuse classical liberalism with soul.

Consider some of the ways that economists unnecessarily shove the soul out of their message. Remember that many of our persuasive efforts are aimed at young people, who are full of surging hormones and vivid enthusiasms and alive to the possibilities of romantic quests, heroic achievements, and “making a difference.” Yet the message they hear in economic classes is that they are deluded in their aspirations, that they will never be very important or accomplish much. There are no heroes in the economic models presented; evidently no one makes a significant contribution to making the world a better place. All the heavy lifting is done by the market that coordinates the actions of millions, generating a wonderful pattern of productive cooperation, but a pattern in which no one person makes a noticeable difference.

For example, to emphasize the importance of specialization and exchange, economists like to tell their students that none of them, nor anyone else, can make

4. I have in mind here the “constrained” and “unconstrained” visions explicated by Thomas Sowell (1987).

something as simple as a pencil (Read 1958). When hearing from economists about the perversities of the political process, each student is informed that his vote doesn't count—with virtual certainty it will have no effect on the outcome of an election. And economists commonly dismiss the contributions of those credited with major achievements. For example, Robert Paul Thomas has argued that “individual entrepreneurs, whether alone or as archetypes, *don't matter!*” (1969, 141; emphasis in original). Using Henry Ford to illustrate his case, Thomas claims that if Henry Ford had never been born, someone else would have responded to the prevailing technological knowledge and market incentives by developing the assembly-line techniques for producing automobiles at about the same time that Ford did.

Long after most students have forgotten the significance of the intersections and tangencies in the blizzard of graphs thrown their way, they will remember the message of their venality and economic impotence, a message they resist and resent.

I acknowledge the important insights contained in these examples of the insignificance of individuals and the power of market incentives. I have used them myself when teaching economics, and I will continue to do so. But economic insights can be developed without squeezing most of the humanity out of the activities and outcomes being explained. By putting some of the humanity (soul) back into economics, we can make it more appealing and more realistic.

Economics, properly understood, is not a study of automatons responding mindlessly to external incentives, but a study of human action motivated by a broad range of aspirations, ideals, and concerns that make life meaningful. All accomplishments require individuals with vision and ambition animated by emotions and values never completely provided by market incentives, individuals who can inspire and motivate others with more than the incentives provided by market exchange narrowly defined. Indeed, markets as such don't do anything (Lee 1996). All actions are taken by people. Markets enhance the importance of individuals by allowing each to make the most of his talent and ambition through productive cooperation with others.

True, no one can make a pencil by acquiring and processing all the inputs required and combining them properly. But that sort of limitation should not cause us to lose sight of what an individual can accomplish. Manuel Ayau, a scholar-entrepreneur in Guatemala, cannot make a pencil. Yet he has accomplished something far more impressive through his dedication, skill, and sheer force of will. In the 1960s Ayau had what everyone thought was an impossible dream, to establish a private university in Guatemala that would attract the best students in the country with a rigorous curriculum in the major academic disciplines, coupled with a strong grounding in classical liberalism. At the time, private universities were almost nonexistent in Guatemala: almost all university students attended large, publicly supported institutions that charged only nominal tuition and offered a curriculum dominated by socialist thought and advocacy. Today, the Universidad Francisco Marroquín, located on a beautiful campus in the heart of Guatemala City, is the most prestigious university in

Guatemala, enrolls the brightest students in the country from every social class, graduates future leaders of Guatemala who understand classical liberalism, and stands as a testimony to what one person can accomplish. Manuel Ayau didn't make anything needed for the construction and operation of Guatemala's premier university, not even a pencil. He had to enlist the cooperation of many others in the pursuit of his dream, but without him there would be no Universidad Francisco Marroquín.

An individual's vote may not determine the outcome of an election, but that does not mean that individuals are politically impotent in the face of special-interest politics and statist-inspired government initiatives. Ideas have consequences for good and bad, and individuals can wield enormous political influence by developing and popularizing ideas. As John Maynard Keynes famously observed, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist" ([1936] 1965, 383). Unfortunately, Keynes's observation accurately assessed his own influence. But the influence of statist ideas has been checked and, one hopes, is now being reversed not only because a few scholars "saved the books" and "saved the ideas" of classical liberalism but also because they further developed those ideas and promoted them within and beyond the academy. James Buchanan, Milton Friedman, and F. A. Hayek have never cast a decisive vote at the ballot box, but through their writings and teachings they have probably done as much as, or more than, any politician in the last half of the twentieth century to improve the human prospect by changing the political landscape.

We can recognize the importance of market incentives in encouraging and directing entrepreneurial activity while also recognizing the heroic and the human aspects of entrepreneurs. Individual entrepreneurs *do* matter, and they are seldom motivated by considerations as narrow as those that animate *homo economicus*. For example, everyone knows that Alexander Graham Bell invented the telephone, but few know about Bell's concern for the deaf. In fact, it was Bell's early work on the transmission of sound, motivated by his desire to improve hearing aids, that resulted in his invention of the telephone, and Bell continued to work with the deaf long after making that invention. Maybe someone else would have invented the telephone at almost the same time if Bell had never existed.⁵ But who knows for sure that the lag would have been short or the approach as fruitful? We do know that important progress flowed from the efforts of one man motivated by a sensitive human concern for those who have special handicaps (Mackay 1997).

Or consider the entrepreneurial consequences that can result from a man's love of his wife. Samuel Morse, who played a crucial role in developing the telegraph and

5. For a detailed response to Thomas's argument that individual entrepreneurs don't matter, see Allen and Lee 1996.

whose code for transmitting telegraphic messages bears his name, was a well-known portrait painter in the 1820s. While he was painting in Washington, D.C., his wife died in Connecticut, and because of the delay in his receiving the message, he was not informed in time to return for her funeral. Morse's sense of loss was acute, and within a few years his passion for painting had been replaced by a desire to develop a faster way for people to communicate (see Mabee 1943).

Conclusion

Economists have made tremendous contributions to classical liberalism and to our understanding of a free, prosperous, and virtuous social order. Some of the insights economists provide are gained by abstracting from real-world complexities and modeling the actions of a caricature known as *homo economicus*. But that economic man is devoid of soul or romance, and his blankness influences what many think of economics. Fortunately, nothing about human feeling or noble motivations is inconsistent with sound economic analysis. If economists are interested in communicating their insights beyond the narrow confines of their profession, they should do more to recognize the human qualities that not only make us nobler than economic man but also make us want to be nobler than we are.⁶ By doing so, economists can make their insights even more compelling, adding some romance to economics and some soul to classical liberalism.

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6. Buchanan has argued that economists ignore much of what it means to be human when they assume that people have given utility functions that they maximize subject to relevant constraints. Instead, people strive to acquire utility functions that improve who they are. Buchanan refers to “man’s tendency to want to want better things, to become a better man” (1999b, 251).

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