

Stigler, George J.

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CENTER FOR THE STUDY OF THE ECONOMY AND THE STATE

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THE ECONOMIST AS PREACHER

George J. Stigler*

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CENTER FOR THE STUDY OF THE ECONOMY AND THE STATE

The University of Chicago
1101 East 58th Street, Chicago, Illinois 60637

*Charles R. Walgreen Distinguished Service Professor, Department of Economics and Graduate School of Business, and Director, Center for the Study of the Economy and the State, University of Chicago.

The Economist as Preacher

I know not what bold new program of lectures I may be initiating at Harvard University. After an economist has spoken on ethics and morality, he may well be followed by a politician lecturing on candor, a mathematician on modesty, or a university president in praise of luxury. Still, the esteem in which all scholars hold this institution led me to infer that any subject it asked to be spoken to must surely exist, and that some talent that even my eager eye had overlooked led to my choice as the speaker. But my subject is not candor, and so on to the economist as a preacher.

In this lecture I propose to discuss how economists -- primarily great English economists in the main line of development of economics -- have advised men and societies on proper conduct. My interest on this occasion is not so much in the advice they gave as in the ethical basis on which this advice was grounded. Economists have no special, professional knowledge of that which is virtuous or just, and the question naturally arises as to how they are able to deliver confident and distinctive advice to a society that is already well supplied with that commodity.

1. How Much Preaching?

The first, probably the most important, and possibly the most surprising thing to say about the economist preachers is that they have done very little of it. I suppose that it is essential to state what I mean by preaching. I mean simply a clear and reasoned

recommendation (or more often, denunciation) of a policy or form of behavior by men or societies of men. It is hardly desirable to label every non-neutral word as preaching — indeed our language is rather short of words that cannot be used in such a way as to hint of approval or disapproval. During a recent war one economist remarked that he was against "business as usual", and a second was moved to ask whether the speaker was against "business, comma, as usual".

I shall illustrate my loose definition of preaching and many subsequent points by quotations from famous economists, and I digress for a moment to explain their authority to any non-economists who are present. All but one of the economists I quote were highly intelligent, disciplined men whose views on subjects related to economics deserve your attention and thoughtful consideration, but no more. One, Adam Smith, is differently placed: if on first hearing a passage of his, you are inclined to disagree, you are reacting inefficiently: the correct response is to say to yourself: I wonder where I went amiss?

When Adam Smith speaks of the debasement of the currency — which of course proceeds at a much more rapid pace today than it did during his lifetime — he says,

By means of those operations the princes and sovereign states which performed them were enabled, in appearance, to pay their debts and to fulfill their engagements with a smaller quantity of silver than would otherwise have been requisite. It was

indeed in appearance only; for their creditors were really defrauded of a part of what was due to them.¹

I consider this to be preaching since "fraud" is not merely a descriptive word. On this mild and I hope reasonable definition of a moral judgment, I have just quoted the only clear example of preaching in the first hundred pages of the Wealth of Nations. The preaching becomes more frequent in Smith's latter pages, but it is almost nonexistent in Ricardo's Principles, quite sparse in Mill's Principles and virtually nonexistent in Marshall's Principles. Of course these admirable men expressed approval or disapproval of many things with every degree of literary subtlety. It would be easy to compile many remarks such as that of Jevons that the Morrill Tariff Act of 1861 was "the most retrograde piece of legislation that this [nineteenth] century has witnessed", in which disapproval is at least hinted at.² But these dicta are noteworthy for their scarcity rather than their frequency in the professional works of the economists.

The proposition that economists are not addicted to taking frequent and disputatious policy positions will appear incredible to most non-economists, and implausible to many economists. The reason, I believe, for this opinion is that in talking to a noneconomist, there is hardly anything in economics except policy for the economist to talk about. The layman is unequipped to discuss with an

¹The Wealth of Nations (Glasgow edition, Oxford, Clarendon, 1976), I, 43-44.

²The Coal Question (London, Macmillan, 1865), p. 326.

economist the problems that concern professional economics at any time: he would find that in their professional writing, the well-known columnists of Newsweek are quite incomprehensible. The typical article in a professional journal is unrelated to public policy, and often apparently unrelated to this world. Whether the amount of policy-advising activity of economists is rising or falling I do not know, but it is not what professional economics is about.

The great economists, then, have not been preoccupied with preaching. Indeed none has become great because of his preaching, -- perhaps I should make an exception for Marx, whom some people rank as a great economist and I rank as an immensely influential one. The fact that the world at large thinks of us as ardent enthusiasts for a hundred policies is not pure error, but it tells more about what the world likes to talk about than what economics is about. The main task of economics has always been to explain real economic phenomena in general terms, and throughout the last two centuries we have adhered to this task with considerable faithfulness if not always with considerable success.

2. Preaching to Whom?

It is my impression that the clergy of former times devoted their finest efforts to mending the behavior of individuals, but that in recent times they have sought rather to mend social policy. Whether this impression be right or wrong, economists have seldom spent much time exhorting individuals to higher motives or more exemplary conduct.

Again I return to Mr. Smith. The servants of great joint stock companies such as the East India Company, Smith avers, were concerned only with their own personal fortunes.

"Nothing could be more compleatly foolish than to expect that the clerks of a great counting-house at ten thousand miles distance, and consequently almost quite out of sight, should, upon a simple order from their masters, give up at once doing any sort of business upon their own account, abandon for ever all hopes of making a fortune, of which they have the means in their hands, and content themselves with the moderate salaries which those masters allow them, and which, moderate as they are, can seldom be augmented, being commonly as large as the real profits of the company trade can afford. ... They will employ the whole authority of government, and pervert the administration of justice, in order to harass and ruin those who interfere with them in any branch of commerce which, by means of agents, either concealed, or at least not publickly avowed, they may publickly chuse to carry on."¹

After having described these wretchedly venal servants, who exploit both their masters and their victims, Smith hurries on to say,

"I mean not, however, by any thing which I have here said, to throw any odious imputation upon the general character of the servants of the East India company, and much less upon that of any particular persons. It is the system of government, the situation in which they are placed, that I mean to censure; not the character of those who have acted in it."²

So it is social institutions that one should castigate: men respond to these institutions in predictable, and probably unchangeable, ways. This is not to approve or disapprove of the principle of self-interest that guides men, although Smith might well have agreed with the remark

¹Wealth of Nations, II, 638-39.

²Ibid., II, 641.

of Frank H. Knight, whom we shall later meet more intimately, that anything which is inevitable is ideal!

Smith's general practice of addressing little preaching to individuals in their private behavior has continued to this day to be the practice of economists. Of course mortal man cannot wholly abstain from all instruction to the young, the inferior, and the great, and an enumeration of these acts would be amusing to you and embarrassing to me. Malthus complained that the lower classes were excessively attentive to what he termed "the passion between the sexes", and even John Stuart Mill shared with him a propensity to propose Draconian methods of dealing with the popular implementation of this passion. Alfred Marshall pointed out the unwisdom of gambling with the aid of the law of diminishing marginal utility, but later, fortunately, Milton Friedman and Jimmie Savage were able to excuse this activity with the aid of a law of increasing marginal utility. A vast number of economists have believed that the sin of myopia with respect to future needs is pervasive. We were once told that a corporation has no soul to damn or body to kick -- a statement that has been emphatically and prosperously refuted by many politicians to this day. Yet surely a devil embodied in a person is a much more satisfying object of dislike and disapproval than some impersonal institution. These lapses of economists from concern with social rather than individual behavior are forgivable, -- a concession to their membership in the human race.

But the lapses are not defensible. Social policies and institutions, not individual behavior, are the proper object of the economist-preacher's solicitude. This orientation is demanded by the very logic of economic theory: we deal with people who maximize their utility, and it would be both inconsistent and idle for us to urge people not to do so. If we could persuade a monopolist not to maximize profits, then other reformers could persuade resources not to flow to their most remunerative uses, and our theory would become irrelevant.

3. Preaching Efficiency

In the economists' sermons the dominant theme has been that good policy favors, and bad policy interferes with, the maximizing of income of a society. We shall find other themes, but over the last two hundred years efficiency in the sense of fuller achievement of uncontroversial goals has been the main prescription of normative economists. Let us first look at a major example before turning to an examination of the content and authority of this primary rule of good conduct.

The most sustained application of this principle by Adam Smith was in the attack on interferences with free trade and on mercantilism generally; he devoted one-fourth of his large treatise to this cause. Smith thus asserted that :

"The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that

it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security."¹

The argument for free trade was deepened some forty years later by the theory of comparative costs, but the central policy conclusion remained, in Ricardo's words, that "under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each."² This position has been almost universally accepted by economists to this day.

Many other examples, but none more important, of the economists' use of efficiency as the criterion for desirable economic policy could be given. The central element of the criticism of monopoly is that it reduces the efficiency of the use of resources. The central element of the criticisms of interferences in labor markets such as minimum wage laws or barriers to geographical or occupational mobility has been their effect on the allocation of resources. An economist is a person who, reading of the confinement of Edmond Dantès in a small cell, laments his lost alternative product.

In Smith's time and for a few decades thereafter the argument for efficiency was embellished with a rhetoric of sacred and

¹Wealth of Nations, I, 540.

²Ricardo, Principles of Political Economy and Taxation, (Sraffa ed. Cambridge, Cambridge University Press, 1951), p. 133.

inviolable rights of natural liberty. But if the concern with natural liberty was ever strong,¹ it had disappeared by the mid-Victorian age.

The attack on the efficiency of public policies will only be appropriate and convincing when the achievement of the goals and the costs of the policies are undisputed. If one policy will achieve more of a given goal than a second policy with the same cost in resources, the former policy is clearly superior, and there is no room for argument over ethics. This has indeed been the essential nature of the great majority of the economists' preachings on public policy.

On this reading, the economist-preacher has simply helped to straighten out the issues for a frequently muddled nation. John Stuart Mill explained the misunderstandings that supported Mercantilism with his customary lucidity: how common discourse confused money and wealth; how a trader does not consider his venture successful until he has converted his goods into money; how money is par excellence the command over goods in general, ready on the instant to serve any desire as no other commodity can; how the state "derives comparatively little advantage from taxes unless it can collect them in money", and so on.

¹Of which I have some doubts. Thus Smith declares that prohibiting banks from issuing small bank notes is of course a violation of natural liberty, and yet it should be undertaken for the greater good of society, Wealth of Nations, I, 324.

"All these causes conspire to make both individuals and governments, in estimating their means, attach almost exclusive importance to money. ...

But mark well the conclusion:

An absurdity, however, does not cease to be an absurdity when we have discovered what are the appearances which made it plausible ..."¹

And there we have the answer to the question of how the economist can operate so extensively and so easily as a critic of policy when he is not in possession of a persuasive ethical system. The answer is that he needs no ethical system to criticize error: he is simply a well-trained political arithmetician. He lives in a world of social mistakes, ancient and modern, subtle and simple, and since he is simply pointing out to the society that what it seeks, it is seeking inefficiently, he need not quarrel with what it seeks.

A world full of mistakes, and capable of producing new mistakes quite as rapidly as the economists can correct the old mistakes! Such well-meaning, incompetent societies need their economic efficiency experts, and we are their self-chosen saviors.

Take away the linen of sophistication in which economists are nowadays dressed, and I believe that this is still the fundamental belief that underlies the large majority of the policy recommendations of our profession. There have indeed been grave income redistribution questions which are receiving increasing attention, but day in and day

¹Principles of Political Economy, (Toronto, University of Toronto Press, 1963), I, 67.

out for the economist the society's problems are usually problems of efficiency. We live in a mistake-prone world.

I believe that this view of society as a community with acceptable, if not always admirable, goals but possessing only a feeble understanding of efficient methods of achieving them, was and is profoundly mistaken.

The mistake in this view should have been evident simply because throughout the period I am discussing there were vigorous controversies over the goals of policy. Indeed, in every literate society, even the most dictatorial, there are critics of the goals of the society. In Ricardo's day, for example, Godwin forcefully argued that the institutions of government and property were among the main causes of social misery. Perhaps Godwin is not an apposite illustration; I suppose that an anarchist is a free trader. Consider, then, Malthus the first professor of political economy in the history of England, who was a supporter of the very protection of agriculture which was the target of Ricardo's attack.

Malthus argued that a nation specializing in manufactures and trade could easily find that its advantages were eroded by foreign or domestic competition, and in any event could be strongly dependent upon the prosperity of its trading partners. An exclusively agricultural nation could find itself locked into a stagnant feudal social system, or alternatively it could find itself unable to employ

capital efficiently once its agricultural plant ceased to grow.

Hence Malthus wished a mixed agricultural-commercial system.

I shall not conceal my doubt that Malthus actually demonstrated the superiority of this mixed agricultural-commercial system, but it is surely true that he raised a cloud of complications which were only slowly dealt with by later generations of free traders. Some of these complications concern the determinants of the long term growth and stability of economies, on which to this day economists have not found confident understanding.

There was a second, and even stronger reason, why the economist -- of all people -- should be reluctant to characterize a large fraction of political activity as mistaken. The discipline that assumes man to be a reasonably efficient utility maximizer is singularly ill-suited to assume that the political activity of men bears little relationship to their desires. I have argued the theme of intelligent political behavior often enough so that I must here limit myself to the barest of remarks.¹ The failure to analyse the political process -- to leave it as a curious mixture of benevolent public interest and unintentional blunders -- was most unsatisfactory.

¹See, however, "Smith's Travels on the Ship of State," HOPE, Vol. 3, No. 2, Fall, 1971, and "The Theory of Economic Regulation," The Bell Journal of Economics and Management Science, Vol. 2, No. 1, Spring, 1971, as well as the underlying literature of Anthony Downs, James Buchanan and Gordon Tullock, and the public choice field.

Whether one accepts or rejects the high hopes that some of us now entertain for the economic theory of politics, the assumption that public policy was often inefficient because it was based upon mistaken views had little to commend it. To believe, year after year, decade after decade, that the protective tariffs or the usury laws to be found in most lands, were due to confusion rather than purposeful action, was singularly obfuscatory. Mistakes are indeed made by the best of men and the best of nations, but after a century are we not entitled to question whether the so-called "mistakes" produce only unintended results?

Alternately stated, a theory that says that a large set of persistent policies are mistaken is profoundly anti-intellectual unless it is joined to a theory of mistakes. It is the most vacuous of "explanatory" principles to dismiss inexplicable phenomena as mistakes -- everything under the sun, or above the sun, can be disposed of with this label, without yielding an atom of understanding.

The ruling tradition of economists has made innumerable criticisms of the inefficiency of various policies, criticisms which have often been to their own (and my own) utter satisfaction. The meager success of these criticisms in changing these policies, I am convinced, stems from the fact that more than narrow efficiency was involved in almost every case, -- that inexplicit or incomprehensible goals were served by these policies and served tolerably efficiently. Tariffs were redistributing income to groups with substantial political power, not simply expressing the deficient public understanding of the theory

of comparative costs. We live in a world that is full of mistaken policies, but they are not mistaken for their supporters.

I wish to recur for a moment to the policy of mercantilism, which Smith attributed to the clever machinations of the merchants and traders against the simple, honorable landowners who still constituted the governing class of Great Britain in his time. Smith and his followers should have asked themselves whether simple error could persist, to the large and centuries-long cost of a class intelligent enough to hire the likes of Edmund Burke. I say, with great fear and trembling, that it is more probable that Smith, not the nobility of England, was mistaken as to the cost and benefits of the mercantile system. I say this for his sake: a world of great and permanent error would be a poor place for economics to live.

4. Preaching Equity

There is one large set of policies which cannot easily be judged merely as to efficiency in reaching widely accepted, comparatively uncontroversial goals: I refer to those which seek to redistribute income. If Nelson and Jones have equal incomes, and a policy takes half of Nelson's income and gives it to Jones, a question of equity will inevitably arise in the minds of everyone except Jones.

For the century from Smith to Jevons, economists were correspondingly discreet in their discussions of income distribution. It may be supposed that Smith thought income distribution was a matter for markets to determine when he said,

"To hurt in any degree the interest of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects.¹

I am inclined to accept this view even though one can find occasional departures such as his proposal to tax the "indolence and vanity of the rich" by having disproportionately heavy tolls on carriages of luxury (II, 246), for these departures are few and casual.²

The classical school did not depart far from Smith's practice. The evil effects of equality were held to be two: a decrease in incentives to thrift and work; and an increase in the population on Malthus' principles. Ricardo would deny the suffrage to those who would not respect the rights of property.³ Mill, although he was the author of the comforting thesis that the distribution of wealth,

¹ Wealth of Nations, II, 654.

² We find complaints at window taxes, as being regressive (II, 373), and at tithes for not being proportional to rents (II, 358).

³ "So essential does it appear to me, to the cause of good government, that the rights of property should be held sacred, that I would agree to deprive those of the elective franchise against whom it could justly be alleged that they considered it their own interest to invade them. But in fact it can be only amongst the most needy in the community that such an opinion can be entertained. The man of a small income must be aware how little his share would be if all the large fortunes in the kingdom were equally divided among the people. He must know that the little he would obtain by such a division could be no adequate compensation for the overturning of a principle which renders the produce of his industry secure. ... the quantity of employment in the country must depend, not only on the quantity of capital, but upon its advantageous distribution, and, above all, on the conviction of each capitalist that he will be allowed to enjoy unmolested the fruits of his capital, his skill, and his enterprise. To take from him this conviction is at once to annihilate half the productive industry of the country..." Observations on Parliamentary Reform, in Works and Correspondence, Vol. V, 500-01.

unlike its production, was socially malleable, was unprepared to support a progressive income tax -- in his case, because of a fear of the effects of levelling income upon the growth of population as well as because such a tax would be insufferably inquisitorial in administration. Bentham's flirtation with notions of equality flowing from the utilitarian calculus left no imprint on friends, disciples and tenants.

There was one interesting near exception to this rule of near silence on the redistribution of income. The rent of land, the payment for the use of its "original and indestructible" properties, was by definition a non-functional income, so that social control over rent would not affect the use of land. Hence Mill was the ardent supporter of the nationalization of future increments of land values. But even here Mill wished to compensate present landowners fully.¹

All this was to change when, but not because, the theory of utility became a centerpiece of economics. In 1881 Edgeworth published Mathematical Psychics, in which the utilitarian calculus was presented with magnificent subtlety, imagery and fruitfulness. A marriage was performed between utility and natural selection, culminating in proposals such as that people below a certain level of capacity

¹Mill was mistaken only in believing that present values did not include unbiased estimates of future increments in rents. A similar problem lurks behind his support for progressive taxation of estates. The posthumous Chapters on Socialism pay no attention to inequality (aside from that implicit in the discussion of poverty) even in discussing Blanc, Fourier and Owen.

should not be allowed to have children,¹ and that the possible correlation of capacity to produce with capacity to enjoy might lead even to the superiority of aristocracy. This effusion was in due time replaced by the classic formulation of the utilitarian rule of taxation, minimum sacrifice. The state should tax the rich before the poor, not simply more heavily than the poor, subject to the unexplored fear of the effects of aggressively progressive taxation on production.² Progression followed from the twin assumptions that the marginal utility of income falls as income rises, and there is no systematic relationship between the amount of income a person possesses and his efficiency in converting income into utility.

By 1912 Pigou was prepared to assert as an axiom of welfare economics that

"... economic welfare is likely to be augmented by anything that, leaving other things unaltered, renders the distribution of the national dividend less unequal."³

He was still reluctant to engage in extensive direct redistribution, on the ground -- so characteristic of this eccentric man -- that the poor would not use the funds intelligently:

"Women, who cook badly or feed their children on pickles, are not bankrupted out of the profession of motherhood; fathers who invest their sons' activities unremuneratively are not expelled from fatherhood."

¹Those denied "a share of domestic pleasures" might be consoled by emigration!

²See Edgeworth, "The Pure Theory of Taxation," Collected Works Relating to Political Economy, (London, Macmillan, 1925), I, 111-42.

³Wealth and Welfare, (London, Macmillan, 1912), p. 24.

"What has been said, however, ... should suffice to establish the thesis ... that the poor, as entrepreneurs of investment in themselves and their children, are abnormally incompetent."¹

Fortunately the intelligence of the poor was rising at a powerful rate, so a few years later Pigou was able to write that "To charge the whole body of the poorer classes with ignorance and lack of capacity for management would, indeed, be to utter a gross libel."² Or was Pigou getting in step with society?

I shall assert, what I believe I could document, a steadily rising concern with the distribution of income among economists-preachers during the last one hundred years. Today the consequences of any policy on the distribution is the early subject of every appraisal, and egalitarianism is an almost uncontroverted goal of social policy. Two broad statements can be made about the ascendancy of income distribution as the subject of ethical judgments on economic policy.

The first is that the expanding concern of economists with income distribution did not come from within economics. Until recently, the professional literature on income distribution has been sparse, relatively iconoclastic (especially with reference to the possibility of interpersonal comparisons of utility), and non-cumulative. It cannot be doubted that the economists imported egalitarian values into economics from the prevailing ethos of the societies in

¹Ibid., pp. 356-57, 358.

²Economics of Welfare (London, Macmillan, 1924), p. 709.

which they live, and they have not been important contributors to the formation of that ethos. In the English tradition from which I have been drawing my examples, the Fabian socialists were immensely more influential and outspoken supporters of egalitarianism than the economists.

The second generalization is that the wide acceptance of the ethical desirability of extensive income redistribution has inhibited the development of a positive theory of income distribution. Such a positive theory would explain how the size distribution of income affected, and was affected by, developments such as rising wealth and education, the roles of taxation and other forms of political action, the institutions of inheritance, and the changing nature of the family. This positive theory is just beginning to emerge, and I predict that it will have important effects upon the attitudes of economists toward policies of redistribution. The remarkable fact, however, that professional study of income distribution up to recent times was small and non-cumulative is attributable to the fact that economists viewed the subject as primarily ethical.

5. Conclusion

I must bring this sermon on economic sermons to a close. The main lesson I draw from our experience as preachers is that we are well-received in the measure that we preach what the society wishes to hear. Perhaps all preachers achieve popularity by this route.

The degree of popularity of a preacher does not necessarily measure his influence as a preacher, let alone as a scholar. In fact

one could perhaps argue that unpopular sermons are the more influential, — certainly if the opposite is true, and preachers simply confirm their listeners beliefs, pulpits should be at the rear of congregations. I shall offer an estimate of the influence of economist preachers in my final lecture.