OTHER THINGS EQUAL

Career Courage

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Amartya Sen as you know won the Nobel Prize. About time. It put me in mind of something I’ve noticed about the Prize: that many of the winners (need I mention the scandal that they have all been men?) have shown courage in their careers. Maurice Allais (1968), Herbert Simon (1979), Friedrich von Hayek (1974), to name three. Because they took intellectual chances they spent time in the wilderness. Unlike the sleek imitators and A-primes who fill the Best Journals, they were not always rewarded with the best jobs: Allais was not at the center of French academic life, Hayek could not get hired by the Department of Economics at Chicago, Simon worked in Pittsburgh.

Imagine a swiggy curve, not necessarily differentiable, plotting some index, any index, of economic ideas against time. I dunno. Prevalence of nonequilibrium arguments. Mathematization. Belief in state action. Attention to historical context. Whatever. If you like, think of it as a vector. The A-primers the curve. If they have the Best Jobs, the undignified offers from Columbia or the crazy advances on a textbook they haven’t started, they are epilobed behind it. Some Nobel Prize winners, I admit, have been A-primers. When you look down the list, though, not many. The original minds in economics—the Coasses (1991) or Alchian, the Buchanan (1986) or Tullock, the Nashes (1994) or Schelling, the Beckers (1992) or Hirschman, the Robert Fogels (1993) or Vernon Smiths—don’t follow the curve. They leave it. They anticipate it by decades, or return boldly to themes long forgotten. They use their tenure for something more noble, and Nobel, than a good raise at salary time and the accolades of the ignorant. Sometimes they lose. One of the most original minds I know in economics has spent his career at a major department without having had the slightest impact on the discipline, chiefly because he kept inventing it before the letter and writes very poorly. He did game theory, for example, fifteen years before its recent rise and fall.

But the courageous scholars, whether they receive the laurel wreath or not, have the satisfaction of virtue, which as you know is its own reward.

Take Milton Friedman (1976). We now think of Milton as a globe-straddling colossus (well, a 5' 1" colossus), the Moses of modern macro (with Bob Lucas as Aaron), above all the prophet of pro-market politics, guru to Thatcher and Reagan, our age’s leading "liberal" in the nineteenth-century and European sense. Think of the past twenty-five years without Milton. He mattered, within economics and without.

Eastern Economic Journal, Vol. 24, No. 4, Fall 1998
Yet the best way for a professor to raise a laugh in a Harvard classroom in the early 1960s was to mention the name of Milton Friedman. Just mention. He didn’t have to have any actual arguments against the Little Giant. Sneering sufficed, and protected the Harvard faculty of economics during its historic low point as an intellectual center (which is why I made sure to study there) from having to think through flexible exchange rates or no minimum wage or school vouchers or MV = PT. (Admittedly, when I decamped to Chicago in 1969 I found that the mere name of Ken Galbraith or Bob Solow (1967) or, to mention the scandal of the woman who first should have got the Prize, Joan Robinson had the same effect there. George Stigler (1982) didn’t have to have arguments against Robinson’s Marxist work, or for that matter her work on imperfect competition. He needed merely to sneer, and the students and assistant professors would join in the fun. 

Milton Friedman was for many years a laughingstock in economics, the anti-Keynesian fanatic from Rutgers and Chicago. That the economists were laughing at an original statistician, a devoted empiricist, and the author of A Theory of the Consumption Function (1957), which no economist of taste can read without thinking, “Wow: this guy is good,” just shows how stupid the conventional wisdom can be and how important it is to read before sneering. When Milton finally got his Prize, in 1976, his wife and fellow economist Rose Director Friedman (whose brother Aaron at the Law School really was an Aaron to Milton’s Moses) said to me that nice as it was to get the Big One, a smaller prize and a medium of warranted respect twenty years earlier would have meant more.

Or take the entire Chicago School (please?). I won’t remind Princeton (one, in 1979, shared) or Stanford (one half, in 1972, shared, if Arrow is assigned half to Stanford and half to Harvard) that cranky little Chicago has been a more courageously innovative place for economics than they (1976, 1979, 1982, 1990, 1992, 1993, 1995, 2012). When I was at Chicago in the 1970s it was pound-for-pound the best collection of economists ever assembled (assembled in Economics itself by Theodore Schultz, laureate 1979, who had done the same trick in his youth at Iowa State; since I left in 1980 Bob and Gary have done a job of disassembly, staffing the department with A-primeurs; Chicago will have no more Nobel prizes.) It the 1970s it was: Bob Mundell. Harry Johnson. Bus Brock. Sherwin Rosen. And that was the second string.

But in 1968 the place was under siege. Everyone hated the Chicago School. I admit I have been amazed how well a little group of Scandinavians have chosen the Prize (though I would prefer see it lapse, because its existence combined with its scarcity blights the declining years of so many economists). It’s almost a test of real intellectual merit that people get angry at you, sneer at you, write you out of the game: thus Bob Lucas (1996) in the wilderness at Carnegie-Mellon. It’s not sufficient, which is what confuses monetary cranks and others, this time of scorn. But it’s something like necessary. Normal science is so often so idiotically wrong (need I mention statistical significance, class?) that the A-primeurs and curve-buggers almost never generate real intellectual merit.

What about Sen? He got the prize, according to the muddled citation, for his early work in social choice, such as Collective Choice and Social Welfare (1970), and for his later work on poverty and ethics, such as On Ethics and Economics (1997). Courage or curve-bugging?

Both. Sen’s early work is strikingly unoriginal. It debt the Is and crosses the Ts on Arrow’s Impossibility Theorem. It looked unlikely in 1970 that Sen would ever be worthy of the glowering prize. A good, womanlike job, yes, and a smooth path in his career, because second-raters can get most enthusiastic about second-rate work done beautifully, and the second-rate provide most of the votes and the dean. That’s what makes Schults’ double performance as chair at Iowa State in the 1950s and 1940s and at Chicago in the 1950s and early 1960s so astounding. He could pick ‘em, and the kind of people he picked were first-raters like George Stigler (whom he hired in 1956) and Margaret Reid (who was at Iowa State from 1930, but whom Schultz encouraged when in 1954 he became chair, and then brought to Chicago; she invented permanent income and co-invented household economics: another feminist scandal).

Sen, however, proceeded to do something with his tenure and his A-prime eminence, and beginning with his little essay in the Journal of Political Economy in 1970, “The Impossibility of a Paretian Liberal,” he embarked courageously on a program of remaking economics that we live in an ethical universe. Not that best of all possible worlds that Stigler liked to suppose, but a universe of good and evil, a universe in which the Coase Theorem (not Stigler’s So-called Coase Theorem, but the real one, remember), under which human arrangements can have inefficient outcomes. People can starve in the midst of plenty, and did, Sen argued, in his native Bengal in 1943.

It is a great accomplishment, though only just beginning, to get economics off the Benthamite line that any evaluation outside of money is sinful. My evaluation of Sen’s work is that up to 1970 it is A-prime and after 1970 it is prime. It is for books like Ethics and Economics that he deserves the money.

If you ask me the question, “What is she talking about? That’s normative economics. I do positive economics,” I suggest you grow up and start reading ethical philosophy more seriously than “De Gustibus Non Disputandum Est.” What Sen has shown is that you are already doing ethical thinking. You might as well get serious.

In the fall of 1997 I started to read C. S. Lewis again. As a bookish adolescent I had read The Screwtape Letters (1942), and much later as an adult his autobiography, Surprised by Joy (1956). Lewis, you know, was a professor of literature at Oxford, a writer of children’s books, and a Christian apologist, specifically Anglican, active in the 1940s and mid-1950s. In Mere Christianity (1952), based on lectures published (1943-45) Lewis was arguing for the existence of a Moral Law, beyond convention or evolutionary prudence, and points out that there is one thing, and one only, in the whole universe which we know more about than we could learn from external observation. That one thing is Man (Humanity, if you please...). In this case we have, so to speak, inside information; we are in the know. And because of that, we know that men find themselves under a moral law, which they did not make, and cannot quite forget even when they try, and which
they know they ought to obey. Anyone studying Man from the outside as we study electricity or cathode rays, not knowing our language... would never get the slightest evidence that we had any moral law. His observations would only show what we did, and the moral law is about what we ought to do. (Lewis 1952 [1996], 30)

What we really, truly know, Lewis is arguing, is this the extra-behaviorist fact about our ethical selves. I think therefore I judge.

As you would expect, on the same page Lewis drew theistic conclusions from the fact of the moral law. "We want to know whether the universe simply happens to be what it is for no reason or whether there is a power behind it that makes it what it is. . . . There is only one case in which we can know whether there is anything more, namely our own case. And in that case we find there is." Eerie. But the way I am using Lewis’ argument (he elaborates it on pages 17-39) Lewis was not the originator of the argument; I believe it is found in Augustine, for example) does not depend on a belief in God. A prejudice against belief in God need not stand in the way of admitting Lewis’ original observation: what we know is ethical.

What we know together as reality, small k and small r, is what we should agree on for practical purposes (you see the intrusion of ethics into knowledge in that "should"). What we know as Reality, capital K and capital R, if we know anything at that exalted level, is only ethical. Ought, not is. So it is silly to think of ethical thought as something non-scientific. This we know.

Prudence is a virtue. We do want to have people around us who can take care of themselves. But there are other virtues, which economics should acknowledge, operating in the economy, and which in any case work in the lives of our ethical heroes. Nobles do not come only from Prudence (Debreu) but from Love (Solow), Temperance (Coase), Faith (Buchanan), Hope (Hayek), Courage (Friedman), and Justice (Sen). And there’s Courage in it all, to leave the curve of dull science.

REFERENCES


Other Things Equal, a column by Deirdre McCloskey, appears regularly in this Journal.

BOOK REVIEWS


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Hysteresis is one of the many concepts economists have borrowed from physics. It was used originally to explain the persistence of magnetization in ferric metals, even after the metal was no longer subjected to a magnetic force. It is now identified with the idea that exogenous shocks may permanently alter the economy, or at least affect it in a way that is not easily undone. It has also come to imply the existence of multiple equilibria.

Hysteresis has had its most prominent application in explaining persistent unemployment in Western Europe since the 1970s (Cros, 1988). However, in this volume under review, Mark Setterfield attempts a broader interpretation. He applies the notion to long-run patterns of relative economic growth. He then attempts to use the concept to explicate Britain’s initial emergence as the world’s first industrial nation and its subsequent slide into a relatively stagnant position, to the point where even one of its Crown Colonies (Hong Kong) surpassed it in real per capita income.

The book is divided into three parts. Part I discusses the hypothesis concept in a competent and thorough manner. Chapter 2 is especially crucial in this regard. The author ably traces the connections between hysteresis and such related concepts as cumulative causation, multiple equilibria, path dependence, disequilibrium adjustments, and persistence. Properly speaking, strict hysteresis involves the existence of a unit root, which implies that any shock has a permanent effect on the system in question, whereas some other concepts (such as persistence) allow for a gradual dying away of the effect over time. Setterfield is especially interested in the relationship between hysteresis and cumulative causation. He sees this as key to the “virtuous dynamics” of the United Kingdom between 1780 and 1870, as it rose to global economic dominance, but which broke apart after 1870.

One main concern of Part I is to critique the traditional equilibrium approach. Setterfield identifies this with assertions of unique and simply stable equilibria, determined by a standard set of exogenous parameters (tastes, technology, etc.). He rejects this approach on grounds of the existence of multiple equilibria, a key hysteresis-related concept, on grounds of instability and persistent disequilibrium adjustment, and more fundamentally, on the idea of “deep endogeneity,” the idea that the supposedly exogenous parameters of traditional equilibrium theory are really themselves endogenous. However, it must be noted that the concept of equilibrium is not superseded, but rather is extended to a more general perspective, in this book.

Part II discusses more precisely how hysteresis can be used to model an economy. The emphasis is upon the link with cumulative causation and path dependence, and