Rediscovering Social Economics: Beyond the Neoclassical Paradigm.

Reviewed by William Ingersoll, Azusa Pacific University

Adam Smith was not all invisible hands and pin factories. Rediscovering Social Economics, by Roger D. Johnson, is a book that explores a number of large and small criticisms of neoclassical economic theory. These criticisms are generally about Smith’s less recited thoughts on the importance of morals and social values in society. Smith believed that, while markets have some good properties, their impact on social mores and cultural cohesion could lead society down a dangerous, immoral path if not matched by proper social policy. The author argues that modern-day economists, in their attempt to create objective models, eschew the social forces that are essential to surround and support a successful market system. Ignoring these forces, he continues, is itself a subjective assumption embedded within the “objective” attempt at modeling behavior.

The book is presented in two parts. The first, “Humans, Society, and Markets,” is comprised of the first seven chapters of the book. The author takes aim at the historical direction of economics as a field, Jevons’ marginal techniques, measures of efficiency used, consumer surplus as a measure of welfare in a market, value generated by trade, homo economicus, and the emphasis on equilibrium. The focus is broadly on the author’s criticism of neoclassical economic theory, mostly illustrated with principles-level versions of these models. Chapters 8 through 13 make up the second part of the book, entitled “Income Distribution: Labor and Financial Markets.” Here the author uses a few detailed examples, such as the labor market and financial markets before, during, and after the 2008 market crash and the following Great Recession, to demonstrate specific instances that the author believes best support his case. The Mondragon firm model of a worker-owned firm with an emphasis on employment instead of pure profit maximization is held up by the author as a better way to organize economic activity. He also discusses the CITI group emails that were made public as a demonstration of the failures of the financial markets.

In chapter 1, the author begins by lamenting the historical trend of economists moving away from normative concerns and simply looking for positive economic statements. The author provides an interesting his-
torical contextualization of *The Wealth of Nations* and notes that, from Adam Smith to John Stuart Mill, the roots of classical economic thought have always had normative concerns alongside the positive ones. Going further, he criticizes what he views as the prominent pedagogy in economics today, which is to focus entirely on positive economics and ignore or belittle normative economic thinking. In the author’s view, these two ideas need to be introduced together, at the principles level, to give students a more complete perspective and “avoid accusations of engaging in indoctrination.”

My question for the author would be: how can one discuss policies in a principles class without discussing the importance of normative economics? I am not sure whom the pedagogical criticism is aimed at, save for exceptionally boring professors that do not try to connect the class to the real world. It is possible that, being a more recent graduate, I have experienced a more normatively-focused economic education. The author should rejoice at the early distinction between normative and positive economics, as it frames all other discussion in these terms, to be explored by the student. The author’s quoted half-accusation of economists indoctrinating students I found to be unnecessary.

I also take technical issue with his characterization of altruism as doing something for someone else because it makes us feel better; he calls this “twisted.” Formally, altruism is, as the author implies, incorporating someone else’s utility into your own utility function. However, contrary to the author’s statement, utility is not a measure of how good we feel. Utility is a tool that we use to represent preferences in a mathematically convenient way. Our values inform our preferences, and our preferences can, in most cases, be represented ordinally through the use of a utility function. If we value the well-being of others, or consider how our actions affect another in our decision making process, that will be reflected in our preferences. One way this may show up at the utility level is through altruism. For instance, if someone buys their sick mother medicine, this may maximize their utility function, but it says nothing about why they preferred that feasible bundle to all others. Perhaps they do, in fact, take pleasure at helping their mother. Perhaps they are trying to avoid the sadness that would come from her death. Alternatively, they may also despise their mother, but help out of a sense of duty. Far from the abomination that the author finds this to be, I see the opportunity to incorporate the subjective, normative thinking he promotes into the clas-
sic theory. The author seems aware of these ideas by later discussions in the book, but also does not explain why he rejects them so strongly here.

Chapter 2 argues that, in the attempt to be objective, economists impose the values of individual liberty over oppression and fairness as proportionality in their models. I would counter that liberty, in the form of individual choice, allows people to reveal the truly private knowledge about how they value specific goods and services. Apart from these choices, we cannot discover this information unless we make strong assumptions about the commonality of what people want. In chapter 3, we find that the author is willing to do just that through Maslow’s hierarchy of needs. Chapter 3 also brings us an interesting take on the classic Robinson Crusoe opportunity cost example. The author suggests having food as one possible production good and defense as a public good, addressing the idea that different goods might have different properties early on. Oddly, this public good becomes excludable later, with no mention from the author, while still being designated a public good.

Chapter 4 discusses Pareto improvements and Pareto efficiency. The author believes that Pareto optimality contributes to the neoclassical resistance to redistribution, as once we have an efficient point, we cannot do better without making someone worse off. This criticism falls short when we notice that there is no objective way to judge between optimal outcomes; there is no reason based on Pareto efficiency to dislike one efficient outcome over another. For instance, most economists would probably agree that an outcome where a dictator has everything and everyone else has nothing, while Pareto efficient, is not particularly fair or desirable. Further, the author’s definition of a Pareto improvement is incorrect, as it does not include the constraint of no one being worse off. The author’s criticism of the New York eminent domain cases is not affected, but his conclusion that economists would find eminent domain where some agents are worse off in the end to be a Pareto improvement is incorrect.

The author is skeptical about gains from trade in chapter 5. While he puts much stock into subjective, normative economics, he is less excited about subjective valuation by individuals. There is little argument provided for this beyond reference to Maslow’s hierarchy of needs from chapter 2. The author promotes Menger’s marginal analysis as preferable to Jevon’s, saying that Menger does not put different values on each unit consumed. However, in the author’s example, Menger implicitly does. As
a consumer purchases more of a good, the average utility per unit changes. This average would only change if the utility from an additional unit consumed were different from the other units, as this is a mathematical property of averages. His characterization of Menger’s first order condition for optimal choice was also equivalent to Jevons if we assume a fixed price, which is assumed in the consumer choice model. Overall, I found the chapter unconvincing.

Chapter 6 discusses the insufficiency of the simplest version of *homo economicus* and behavioral alternatives. In particular, the author praises game theory and its use by other fields to address economic questions. With that in mind, along with the author’s dislike for the competitive market equilibrium that we find in chapter 7, it is odd that the author has little to say about the field of industrial organization. This field deals with imperfect markets using game theoretic models to try to capture observed market behavior.

The most notable idea in chapter 7 is thinking of supply and demand not as single-valued curves, but as distributions about some line, as we might observe in data. Thus, supply and demand are both compact correspondences, supply upward trending and demand downward trending, with market trading occurring somewhere within their intersection. The author seems to think the quantity traded will be the same, with just the price being different between transactions, but gives no justification for it. If the distribution idea is true, the intersection of the correspondences should restrict possible transactions to anywhere within the intersection diamond. If the distributions became less noisy, we could approach the classic single-valued supply and demand curves of the classic model.

Chapters 8, 9, and 10 build up labor supply, demand, and equilibrium, in that order. The biggest departure from standard theory is that he does not believe the short run fixed capital vs. long run flexible capital idea can ever actually achieve equilibrium, though the argument is imprecise. He concludes, with a tinge of Marxism, that labor is eternally undercompensated. Chapter 11 is a brief case study of the Mondragon firms and the ways in which the author believes they address problems from the labor market through workers being the owners of the corporation.

The author presents his ideas with interesting examples or suggested teaching techniques. The emphasis on the social aspects of economics is the most important benefit of the text. On the other hand, I found many of the criticisms made about neoclassical economics to be already accom-
modated in standard principles classes and textbooks. I would be sur-
prised to find a microeconomic principles class that presents public goods
as bad because the resulting market equilibrium is not efficient. The issue
is a failure of the market, not of the characteristics of the good. Neverthe-
less, this is the author’s assumption on how the topic is taught. The author
also points out that many of his criticisms are being addressed by behav-
ioral and development economists. These are not niche fields in econom-
ics, and questions have the attention of strong minds. I am left wondering
whether the pure neoclassical economists, as the author conceives them,
actually exist in any meaningful way. Very few of the criticisms are for-
mal, making it difficult to be precise about what his argument specifically
is. Others make use of an overly simple model, when extensions of the
standard model exist to account for the circumstances of interest. Fur-
thermore, there are a number of technical errors, such as the definition of
a Pareto improvement not including the restriction that no one be worse
off, calling something that is excludable a public good, or presenting mar-
ginal revenue spent on a good as meaningfully different than the price of
the good in a case where prices are fixed. Finally, there are multiple points
in the text where the author accuses mainstream economists of being dis-
honest in their presentation of ideas, or of teaching students in such a way
that the favored norms of the professors sneak their way into students’
minds. Those points usually assume the professors are acting in bad faith,
which I found to be distracting and unnecessary.

The emphasis on the role of morals in society is the only part of the
book that is of special relevance to Christian economists. While there
are some Biblical references here and there, this book is not trying to
argue from a purely Christian perspective. The addition of morals to the
societal question is accounted for generally in the thoughts of the author,
but there is no unified or novel model or theory about their applica-
tion, save for a few suggested policies that match the author’s particular
views. As such, I would not recommend this book as explicitly providing
a Christian view, nor providing formal machinery to develop a Christian
worldview of economics. I would recommend this book in a more narrow
treatment, used to remind us of the importance of our morals informing
our decisions, as well as providing a less-than-orthodox perspective on
economic theory. It inspired some rich discussion among colleagues at
my institution, and would likely do the same for others, particularly in a
more philosophically-focused seminar-style economics course.