Modern Economics as a Form of Magic

Economics is a highly rationalistic social science, if not *the* rationalistic social science. It provided the original model for social science. Economists do not invoke the supernatural realm as a means of explaining or changing anything. Modern economics is strictly a man-centered discipline. How, then, can it be considered magical? Because economists propose a worldview that insists that wealth-creation can take place, and does take place, by means of techniques and institutional arrangements that supposedly have no necessary connection to ethics. (In Armen Alchian's evolutionistic model, wealth-creation could even take place in a random world without purposeful action.[1]) Economic theory substitutes formulas, preferably mathematically expressed, for ethics in its explanation of how the world works.

The economist proposes the magician's quest: discovering techniques for gaining external blessings apart from external conformity to the Bible's cross-boundary laws.[2] If wealth-creation is governed by social laws and techniques that are independent of ethics, then man can gain something valuable apart from the costs of obedience to God. This is the magician's worldview. Like Moses when he defiantly struck the rock twice to get water out of it (Num. 20:11), just because striking it once had worked before (Ex. 17:6), the magician seeks an arcane formula or procedure to invoke, or some other source of power over nature, that does not ask him to change his commitment to his own self-centered ends. Modern economics is the academic incarnation of this outlook, an entire worldview that interprets most of society's operations in terms of men's individual solutions to one simple question: "What's in it for me?"

Post-Scholastic economics has generally asserted that wealth-creation is not a matter of ethics; rather, it is a matter of the efficient application of ethically neutral knowledge to the problems of scarcity. For the economist, the phrase, "honesty is the best policy," is epistemologically meaningful only if honesty can be shown statistically to earn a rate of return above the rate of interest obtainable by investing in "risk-free" short-term government debt.

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Economics and Agnosticism

Ever since the late seventeenth century, economics has rested self-consciously on the methodological assumption of agnosticism regarding God. It has sought to avoid any invocation of the authority of religion. Operationally, this agnosticism is atheism. This confessionally atheistic worldview was first extended into scholarship by the economists. William Letwin's book, *The Origins of Scientific Economics* (1963), remains the most detailed study of this intellectual development. He writes:

> Nevertheless there can be no doubt that economic theory owes its present development to the fact that some men, in thinking of economic phenomena, forcefully suspended all judgments of theology, morality, and justice, were willing to consider the economy as nothing more than an intricate mechanism, refraining for the while from asking whether the mechanism worked for good or evil. That separation was made during the seventeenth century.... The economist's view of the world, which the public cannot yet comfortably stomach, was introduced by a remarkable *tour de force*, an intellectual revolution brought off in the seventeenth century.[3]

He goes on to assert that "the making of economics was the greatest scientific achievement of the seventeenth century."[4] While the development of Newtonian physics would seem to deserve that honor, there should be no question that scientific economics was the greatest atheistic intellectual achievement of the seventeenth century, retaining this title until Darwin's *Descent of Man* (1871). Newton the physicist at least tipped his academic hat to a deistic unitarian god who sustained sufficient order in the cosmos to make applicable men's knowledge of mathematics. The economists, then as now, tipped their academic hats to no god at all.

Adam Smith seems to be an exception. He was a deist of some sort. This is clear from scattered passages in his book, *The Theory of Moral Sentiments* (1759).[5] The book is barely known, rarely read, and never discussed as a contribution to economic thought. Smith made no analytical use of its vague theology in the *Wealth of Nations*. His famous "invisible hand"[6] was a mental construct, not a god. "The hand's going to get you" was not what he had in mind.

Economists since the late nineteenth century have proclaimed the ideal of value-free economics: economic science devoid of ethical content. They have to this extent become magicians. The magician seeks something for nothing by means of ritual formulas. The economist seeks ways for society to attain "more for less"[7] through insights generated by means of arcane mathematical formulas.

Equilibrium Conditions as Conceptual Magic

Modern economics assures us that a society can create wealth if it implements production techniques within a framework accurately described by a series of simultaneous equations. Walras in the 1870's described the market order in this way. Oskar Lange in the 1930's argued that socialist central planning could match the efficiency of the free market by adhering to such mathematical equations in a trial-and-error process.[8] These equations presume equilibrium: a condition in which no further economic change is possible because all of the society's production opportunities (functions) have been maximized. It is a world without profit or loss, a world without mistakes. As Kirzner has put it, "equilibrium conditions can exist only when there is, in effect, nothing left for the entrepreneur to do."[9]

For this to take place at any point in history, all of the participants in a free market, or the central planners in a socialist economy, would have to possess perfect knowledge, including perfect knowledge of the future. *They must be omniscient.* Economists do not use such decidedly theological terminology when describing equilibrium. If they were more forthright about the presumptions of

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equilibrium theory, they would not be taken seriously by anyone outside of their profession. They use language like E. H. Phelps does in *The New Palgrave* (1987), the economics profession's dominant dictionary: "Economic equilibrium, at least as the term has traditionally been used, has always implied an outcome, typically from the application of some inputs, that conforms to the expectations of the participants in the economy."[10] This seems so subdued and inoffensive, even plausible. In fact, if equilibrium is said to be a possibility at any point in history, even in theory, the assertion is wide-eyed nonsense bordering on insanity. For equilibrium to occur for even five seconds, every participant in the economy must foresee the resource-allocation outcomes of all of the economic decisions made by all the other participants. That is, they must all be omniscient. Furthermore, not one of them can make a mistake in the actual implementation of his omniscient forecast that in any way deviates from the comprehensive outcome that is perfectly foreseen by all others.

This is never-never land. Yet time and time again, we find economists seriously discussing a theoretical problem as if this never-never land could conceivably occur in this world. One of the most important examples of this in the twentieth century is the Mises-Lange debate, or rather Oskar Lange's response in 1938 to Mises' 1920 essay, "Economic Calculation in the Socialist Commonwealth."[11] In his suggested solution to Mises' arguments that socialist economic calculation is inherently irrational, Lange wrote: "Let us see how economic equilibrium is established by trial and error in a competitive market."[12] Then he went on to propose his practical solution to Mises' objection, which rested on the ability of central planners to coordinate the economy by means of trial-and-error pricing. The theoretical problem with this solution is that under equilibrium conditions, there can be neither trial nor error. Equilibrium is the negation of trial and error. But for half a century, this obvious observation escaped that portion of the economics profession that had ever encountered a reference to the Mises-Lange debate. Lange's proposed solution, which was never adopted by any socialist planning agency, was regarded by his academic peers as having solved the real-world problems raised by Mises. As socialist economist Robert Heilbroner admitted in 1990, the year after the Berlin Wall came down, and the year before the Soviet Union collapsed: "Fifty years ago, it was felt that Lange had decisively won the argument for socialist planning." It has turned out, Heilbroner belatedly admitted, that Lange was wrong, and "Mises was right."[13] But he made this admission in a literary magazine, not in a professional economics journal. Fifty years of criticism from a handful of free market economists that Lange's solution, based on equilibrium conditions, was no solution at all, in no way affected the thinking of the vast majority of academic economists. They were equally committed to equilibrium as a legitimate model with which to critique free market capitalism,[14] so they refused to pay any attention to Lange's critics.[15] What finally persuaded them was not Mises' arguments but socialism's visible irrationality: the bankruptcy of the Soviet-bloc nations in the late 1980's.

Invoking equilibrium when discussing economic policy-making is an exercise in conceptual magic. Equilibrium rests on the assumption of the possibility of mankind's omniscience. Yet neoclassical economics, including Keynesianism, invokes the equilibrium concept continually.[16]

Economic Theory vs. Ethical Value

Ethical value is publicly stripped of all authority in modern economic theory.[17] Those few economists who have argued that value-free economic analysis is mythical have had almost no influence on the profession. If they have had any influence, this topic was not the area in which they established their reputations.[18] The one well-respected American economist who has argued forcefully for the reintroduction of values into economic theory, Kenneth Boulding, is regarded as somewhat eccentric for promoting the idea that ethics should be incorporated into the tools of analysis.

Meanwhile, the use of high-level mathematics as a tool of theoretical analysis, especially since the days of Leon Walras, reveals just how committed the economics profession is to arcane formulas. There is even an element of priestly ritual about this procedure. Liberal economist John Kenneth Galbraith, who spurned mathematics, formulas, and graphs throughout his career, once revealed a little-known side of the profession. The editors of the professional journals, which are the avenues of career advancement, play a game regarding the use of mathematics:

> The layman may take comfort from the fact that the most esoteric of this material is not read by other economists or even by the editors who publish it. In the economics profession the editorship of a learned journal not specialized to econometrics or mathematical statistics is a position of only moderate prestige. It is accepted, moreover, that the editor must have a certain measure of practical judgment. This means that he is usually unable to read the most prestigious contributions which, nonetheless, he must publish. So it is the practice of the editor to associate with himself a mathematical curate who passes on this part of the work and whose word he takes. A certain embarrassed silence covers the arrangement.[19]

Value Theory at an Impasse

The attempt to create an economic science as devoid of value judgments or ethics as physics has led to a theoretical impasse. This impasse was first discussed in detail in the 1930's, but it is almost never mentioned today because it cannot be solved, given the presuppositions of modern economics. With the neoclassical revolution of the 1870's, economists began to abandon the classical economics' concept of objective economic value.[20] They substituted individual value preferences for objective value. All economic value is imputed by individuals, modern economics insists.

If this is true, then in order to make any kind of policy recommendation, the economist must assume that the value preferences or value scales of individuals can be compared with each other. To say that a policy benefits a lot of people assumes that the economist can compare the value scales of all of these people, or at least a statistically valid sample of them (but how can we be sure it is valid?), as well as the value scales of those who are not benefitted by the policy. He must be able to total up benefits and costs. He must be able to aggregate individual value preferences. But this is impossible to do. There can be no interpersonal comparison of subjective value. This was Lionel Robbins' conclusion in 1932, and while he partially recanted in 1938, he did not explain why he had been incorrect in 1932.[21]

There is no common scale of values in human action, economic or otherwise. There is no value *scale*. Scales are physical devices used by physicists and chemists. An idea of a "scale of values" is at best a useful teaching device. It is not only mythical, it is misleading if it is associated with actual measurement. It makes economics sound like a physical science. Individual value preferences can be ranked; they cannot be measured.[22] As for social value, it has no role to play in a science that denies that it is possible to make interpersonal comparisons of subjective utility. The problem, however, is that it plays an enormous role in economics. Indeed, economics as a social science is inconceivable apart from the concept of social value. Economics without a concept of social value would be like physics without a concept of mass.

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quest for meaning apart from "thou shalt not." The socialist economist is less likely to indulge in this quest than the free market economist is, since he invokes the benefits and legitimacy of social justice despite all socialist economies' declining economic output. There are "higher values" than "mere statistical output," he insists. The State must redistribute resources in order to benefit the oppressed or whichever the favored group is. Theoretically speaking, a strictly value-free free market economist cannot respond to the socialist by appealing to the free market's measurable efficiency and growth without violating the principle of imputed individual value. There can be no scientifically valid measure of aggregate economic value, so there is no way to measure economic efficiency.[23]

This admission would undermine all discussions by economists of government economic policy. Neither the socialist economists nor the free market economists want to see this. To have lots of people understand that economists as scientists must remain mute in all government policy matters is not in the economists' personal self-interest. They might lose their jobs.

The economist pretends to pull a rabbit (a policy recommendation) out of an empty hat (value-free economics). But he put the rabbit in the hat before he went on stage. He has definite value preferences. His economic analysis will reflect this fact. He will defend or attack this or that government policy in terms of his preferences. He cannot do this as a scientist, given the impossibility of making interpersonal comparisons of subjective utility. He does so as a self-interested propagandist who pretends to be a neutral scientist for the sake of being taken seriously by policy makers and voters. This kind of magic is prestidigitation. It is based on manipulation and illusion. Sometimes I think the primary victims of this illusion are the economists themselves, most of whom seem blissfully unaware of the epistemological subterfuge they are promoting.

The Trinity and the Imputation of Value

Without the presupposition of an omniscient God who imputes value subjectively in terms of a scale of values, a God who can measure value scales and make interpersonal comparisons of men's subjective utility, there can be no economic science. Modern economic science rests unofficially on the assumption of collective value scales and preferences, and also their measurability, even though officially economists deny their existence. They must assume what they officially deny.

There must be socially objective value and a socially objective value scale if there is a legitimate economic evaluation of social policy. There must be a value scale undergirding every evaluation; that is what 'evaluate' means. God's judgments are objective in the sense of being both eternal and historical. He brings visible judgments in terms of His law. These judgments are both objectively grounded and subjectively grounded in the fixed moral character of God: "For I am the LORD, I change not; therefore ye sons of Jacob are not consumed" (Mal. 3:6).[24] God knows objectively whatever He knows subjectively, and vice versa. In Him, both subjective value and objective value reside. They reside there personally, for God is personal.

A corollary to the doctrine of God as an imputing agent is this: if individual men were not made in God's image, imputing value in a creaturely fashion, there could be no economic science. Men can impute value only because God has already done so. An individual can make useful estimates of social costs and benefits only because God makes precise calculations of social costs and benefits.

Finally, there is this corollary: if men were not able to impute value corporately, even as the Triune God of the Bible imputes value corporately, there could be no social theory, including economic theory. There could be no epistemological basis for policy formation. Societies can make judgments corporately because God does. The doctrine of the Trinity is the foundation of social theory.

This is all denied by the modern economist. Economics has adopted the confession of the magician, not in the sense of invoking the supernatural, but in the sense of attributing wealth-creation to value-free techniques governed by formulas. The socialist invokes State planning; the free market economist invokes private property. Both deny that wealth is the product of obedience to God's laws. From economics, the original social science,[25] has come the confessional model of all the others: "There is no necessary and sufficient god but man, either individual or collective."

Conclusion

Man lives in a world of imputed meaning, for he is a creature under God. It is God who imputes original meaning and value to the creation. Man is God's subordinate, required by God to think his own thoughts after Him, in a law-abiding, creaturely manner. But this is both too much and too little for covenant-breaking man. He wants to be less than the image of God and more than the agent of God. If he is either, he becomes responsible to God. He wants autonomy from God; so, he subordinates himself to nature instead. Rejecting God's law as a guide to human action, he finds himself entrapped by impersonal forces, which are in turn governed by (or are they merely revealed by?) impersonal formulas. Covenant-breaking man seeks out formulas as the pathways to wealth and power. Some people prefer astrological formulas; others prefer statistical averages. Fate or chance or an impersonal mixture of the two: which will it be? "Get your bets down, please. The window is about to close."

But why do any of these formulas work? Consider mathematics, the most popular source of power-granting formulas in our day. Men master the discipline of mathematics in order to understand and control their world, rarely pausing to contemplate the utter unreasonableness of the fact that a mental construct that is governed exclusively by its own rules of logic applies in so many powerful ways to the operations of the external world.[26]

Modern economics, the original strictly humanistic social science, cannot avoid these humanist antinomies. For example, in seeking autonomy from God, modern economists propose a world in which only individuals impute value to the creation. But then they find that these autonomous imputations cannot be aggregated: no common measure exists. It is impossible to make interpersonal comparisons of subjective utility. So, policy-making on a scientific basis must logically be abandoned. But the economist does not want to abandon either science or policy-making, especially government policy-making, where the power is, or seems to be. So, he refuses to think about the logic of his position.

The economics profession is becoming ever more self-conscious in its quest for analytical tools that abandon any trace of ethics. Many economists are even bothered by the traditional concept of choice; Alchian is a good example of this. They may adopt indifference curves as a way to avoid the more psychological, and therefore more scientifically suspect, concept of utility. But if acting man is truly indifferent between two possible outcomes, how can he choose? Will he stand motionless, like Buridan's ass, until the threat of deprivation pressures him to take action, at which point he abandons his indifference?

Economists adopt cost curves, supply curves, all kinds of curves. But a curve is made up of infinitesimal points. Prices and quantities are described as changing in infinitesimally small moves. But infinitesimal changes are not aspects of decision-making. On the other hand, they are subject to the calculus, which for the modern economist is surely a more important explanatory tool than human action is.

Economists propose random walk theory, which says that no one can

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consistently beat the stock market averages. But if everyone believed the economists on this point, no one would devote the time and effort to improve his likelihood of beating the market. No Warren Buffet would appear for other investors to attempt to beat (and for random-walk economists to ignore, since his case proves embarrassing for their theory). The division of intellectual labor would suffer. But if Alchian is correct, this would not matter in the aggregate, since an economy's success need not be based on individual motivation and foresight.

Step by step, humanistic economics is abandoning man. God is not mocked...not at zero price, anyway.

ENDNOTES

1 He writes: "The essential point is that individual motivation and foresight, while sufficient, are not necessary" Alchian (1977), p. 27.
2 A cross-boundary law was applicable to Israel and the nations, and it is still binding today. I do not use the phrase "natural law," since it contains too much baggage regarding covenant-breaking man's supposed ethical neutrality. See North (1994), pp. 643–45.
3 Letwin (1965), pp. 158–59.
4 *Ibid.*, p. 159.
5 Smith (1976), pp. 275, 483.
6 Smith (1965), p. 423.
7 More precisely, he seeks to obtain more value from a given cost of resource inputs, or a given output from less costly resource inputs.
8 Lange and Taylor (1956), pp. 72–83.
9 Kirzner (1963), p. 247.
10 Phelps (1987), p. 177.
11 von Mises (1963), ch. 3.
12 Lange and Taylor, *op. cit.*, p. 65.
13 Heilbroner (1990), p. 92.
14 For example, the once-popular "perfect competition" model was used to show why capitalism fails in practice. But in the perfect competition model, there is no competition, since everyone is omniscient regarding the uses of scarce resources. See Kirzner's criticisms of E. H. Chamberlin in Kirzner (1973), chs. 3, 4.
15 The most widely known response was by Hayek in *Economica* (1940), reprinted in Hayek (1949), ch. 9. The most detailed criticism was by the little-known economist, T. J. B. Hoff (1949). This has been reprinted by the Liberty Fund.
16 The Austrians invoke it occasionally, but only as a mental construct. They follow Mises by calling it the evenly rotating economy (E.R.E.). They use it only to prove that the interest rate is a universal phenomenon. The one exception to this is Kirzner's discussion of perfect competition, which he says openly is impossible, in his long out-of-print upper division economics textbook, *Market Theory and the Price System*, pp. 108–109. For a critique of the E.R.E., see North (1987), pp. 352–53, and North (1990), pp. 1120–21.
17 Weisskopf (1971), ch. 4.
18 Robert Heilbroner is a good example. His popular book on the history of economic thought, *The Worldly Philosophers*, is a standard text in both history and economics departments. It was assigned by the millions. But his essay on the impossibility of value-free economics was not published in an economics journal. See Heilbroner (1982). The publisher did not bother to typeset this volume. It was written on a typewriter.
19 Galbraith (1971), p. 41n.
20 Black *et al* (1973).
21 On his debate with Sir Roy Harrod in 1938, see North (1987) pp. 44–51; and North (1990), Appendix D: "The Epistemological Problem With Social Cost." Cf. Lutz and Lux (1979), pp. 83–87. These two authors are as little known as their publisher.
22 Rothbard (1962), p. 222.
23 Rothbard (1979), p. 90. Cf. North (1990), pp. 1118–19.

24 "Every good gift and every perfect gift is from above, and cometh down from the Father of lights, with whom is no variableness, neither shadow of turning" (James 1:17).

25 Political philosophy, as distinguished from political science, began its march into atheism with Machiavelli. But Machiavelli had no explicitly scientific pretensions.

26 Wigner (1960), pp. 1–14. Wigner won the Nobel Prize in Physics.

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