Book Reviews

Economics as Religion: from Samuelson to Chicago and Beyond

Robert H. Nelson. University Park, PA: The Pennsylvania State University Press. 2001. ISBN: 0–271–02095. $35.00.

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I confess that my bias before reading *Economics as Religion* was that economics is not religion. This is, of course, a matter of definition, and Nelson presents a forceful argument that economics can be viewed as a secular religion. I am not fully persuaded, but more on that below. Nonetheless, I found *Economics as Religion* to be a richly informative and stimulating history of twentieth-century economic and social thought in the United States. The provocative conclusions include the need for a change in economic methods and in the structure of universities.

Nelson argues that the most important role of economists in American society over the past century was as preachers of a religion in which salvation comes through economic progress. Economic progress results from the efficient working of a market economy and economists have been the priesthood defending the core value of efficiency. This economic religion, however, must resolve "the market paradox": that the workings of the market are based on the pursuit of self interest; but, if the pursuit of self interest goes too far, markets may function very poorly.

Nelson first presented the argument that economists are the priests of a secular religion of economic progress in his 1991 book, *Reaching for Heaven on Earth: The Theological Meaning of Economics.* This book explored how the secular religions of various schools of economic thought through the nineteenth century mirrored the "Roman" tradition or the "Protestant" tradition in Christianity. *Economics as Religion* extends to the twentieth century the argument that economists are more like theologians than scientists, focusing on the influential economics departments at the Massachusetts Institute of Technology, represented by Paul Samuelson, and the University of Chicago, represented by Frank Knight, Milton Friedman, Gary Becker, and others. In a fascinating discussion, Nelson then explains how the new institutional economics, as developed over the past forty years, undermines the theoretical frameworks of Samuelson and the Chicago school, and points to the economic significance of religion and other cultural influences.

At the turn of the twentieth century, the American Progressive movement advocated the scientific management of society to promote material prosperity and improve the human condition. Paul Samuelson's widely circulated introductory textbook *Economics* (1948) expressed the core progressive values but reinterpreted them. The goal was economic progress; the means was an efficient economic system regulated by the government. The government would maintain low unemployment through stabilization policies, and would redistribute resources to the less fortunate. Economic growth would eliminate poverty and the accompanying social ills, and would provide resources to improve the environment. The greatest threats to progress were special interests. The market paradox was solved by allowing people to pursue self-interest in the marketplace, but have markets managed by professionals who would act in the public interest. The Progressive movement paved the way for the development of the twentieth-century welfare and regulatory state.

In the 1960s, the Vietnam War, the environmental movement, and problems in cities fostered doubts about the assumptions of the Progressive movement. There arose in American society skepticism of authority, a new individualism, and a libertarian value system. The Chicago school of economics was influential in giving libertarian values a scientific representation and in proposing public policies to advance those values. Nelson identifies three generations of the Chicago school: the first is exemplified by Frank Knight, the second by Milton Friedman and George Stigler, and the third by Gary Becker, Robert Lucas, and Richard Posner. These three generations, Nelson writes, have several secular religions united by the common themes of a mistrust of progressive ideas and the value of individuals pursuing their self interest. Some of the mistrust of government regulation of markets stems from the belief that government officials will pursue their interests, which may diverge from the interest of private citizens. Economic progress is best advanced by individuals trading with each other with minimal government interference.

The New Institutional Economics, which has risen in prominence since the 1960s, emphasizes the pervasiveness of information and transaction costs and the vital roles of non-market institutions and cultural norms in determining economic outcomes. Information and transaction costs make it difficult to write, monitor, and enforce contracts. If individuals always act selfishly, they will deceive and cheat whenever they think that they can get away with it. A degree of honesty and trust is necessary to reduce transaction costs and for markets to function efficiently. The importance of cultural norms to economic efficiency weakens the Chicago school's case for allowing individuals to pursue their self-interest without restriction, and suggests that religious beliefs can enhance efficiency by promoting a system of low-cost implicit contracting.

I found the discussion of Samuelson's version of American progressivism, the three generations of the Chicago school of economics, and the New Institutional Economics to be engaging and enlightening. However, I do not fully accept Nelson's thesis that "the most vital religion of the modern age has been economic progress," with economists serving as the "priesthood," "promoting a culture of civic commitment to the market system."

It is reasonable and perhaps useful to undertake a theological interpretation of modern economic thought. But is economic progress a religion? Nelson presents the Supreme Court's definition of religion, which borrows explicitly from theologian Paul Tillich's definition, as "an individual's 'ultimate concern,'" similar to the definition "one's ultimate value" found in the *Dictionary of Christianity in America* (Reid et al., 1990). Secular humanism, for example, which looks to human experience for moral and spiritual guidance, can be considered a religion according to these definitions. The ultimacy of economic progress in Samuelson's *Economics* and in the Chicago school of economics, however, is questionable. Nelson writes that

> *Economics* is filled with normative references to the broader social importance of economic progress . . . In short, the most important benefits of economic progress do not lie in crass material satisfactions but in meeting the prerequisites for a healthy democratic society, one characterized by mutual respect and equality.

Apparently, economic progress is not the "ultimate concern" of Samuelson. Rather, it is more instrumental, or as Nelson himself describes it, the path to a new heaven on earth. Calling economic progress Samuelson's religion seems like calling meditation the religion of a Buddhist. In a similar vein, the ultimate concern in the libertarian value system expressed by the Chicago school of economics is not economic progress but freedom. The possible efficiency of a market system is a desirable outcome of voluntary exchange, but some libertarians might oppose government interventions, even if they improve economic efficiency, because they are coercive and result in a loss of individual freedom.

Not every influential idea is a religion, nor are its champions always priests. The mixed market system advocated by Samuelson and the relatively free market system preferred by Milton Friedman are better classified as political theories, if not political philosophies, than as religions. Philosopher Alan Brown defines a political theory as a body of doctrine concerning a preferred organization of society, or aspects of it. Anarchism and socialism are political theories. They are descriptions of candidates for the good society, and may or may not be rationally grounded. Political philosophy is the inquiry into how the values, ideals, and principles which inform such theories are to be given rational grounds. Since Nelson writes that "[t]he emperor of high economic theory has no clothes," the economic systems advocated by Samuelson and Friedman perhaps are more appropriately called political theories rather than political philosophies.

Now some comments on two conclusions Nelson reaches, one concerning economic methods and the other the future of the social sciences in universities. First, Nelson states that the methods of history will provide a more effective way of studying the influence of cultural norms on economic growth and development than the quantitative analytical methods commonly employed by economists. This might be true, but historians still have to explain observations, a process which involves distinguishing between correlation and causation and disentangling the effects of numerous interrelated variables. Second, Nelson conjectures that due to fading belief in progressive ideals and the scientific management of society, the social sciences in their current forms will probably disappear from universities, and that a multi-disciplinary form of history will ascend with methods closer to those of theology than of social science. I, too, think that disciplinary boundaries will blur, but quantitative methods will remain useful tools for some questions and universities might integrate many disciplines in the humanities, physical sciences, and social sciences to address the central questions of moral philosophy and political philosophy: How ought an individual live one's life? What is a good society?

Economics as Religion is a well-written book, one rich in ideas. It would appeal to many economists, especially those with interests in the history of economic thought, methodology, and religion. It also would appeal to students of the role of religion in public life. Now, about the title. . .

References

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