



Logos Abused (Part II): The Decadence and Tyranny of Abstract Reasoning in Economics

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LOGOS ABUSED

The Decadence and Tyranny of Abstract Reasoning in Economics – part II

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(This is part II of Logos Abused of which sections 1-7 were published in the December 2014 issue of GroundSwell.)

8. Exhibitionism

Those who chastise arrogance in others are not always modest about parading their own mastery over forms and symbols. Roger Bacon, 13th Century pioneer of observant and experimental science, also observed his colleagues The Schoolmen. “There are four chief obstacles in grasping truth, which hinder every man, however learned, and scarcely allow any one to win a clear title to learning, namely, submission to faulty and unworthy authority, influence of custom, popular prejudice, and concealment of our own ignorance accompanied by an ostentatious display of our knowledge.” (Roger Bacon, *Opus Majus*). How vulnerable most students are to the last, and what clever mimics some are. What little prigs and pedants they become if we train them only by heaping doctrine upon doctrine, rather than urging them to frame and evaluate hypotheses to solve problems they perceive around them. It is not surprising Bacon was repeatedly censured for such thoughts as those cited, and finally imprisoned. Bacon predicted, among other things, the development of flying machines. Do not the words quoted also predict the decadence of modern economic theory?

9. Decadence and Cults of Minutiae

Medieval philosophy rose no higher than seeking to reconcile Faith and Reason, *Mysterion* and *Logos*. It would bring all knowledge into one coherent system subordinate to theology, using methods of Aristotelian logic. The effort enlisted the genius of St. Thomas Aquinas, yet failed. St. Bernard rejected it because it was not Faith; the modern world rejects it because it is not science.

After the Scholastic climax of the 13th Century, the extreme rationality and subtlety of later Scholasticism no longer satisfied people’s curiosity. The problems it addressed no longer seemed applicable to the society of which they were a part. It was noted an emphasis on style and form betrayed the absence of a vital subject matter. Later schoolmen, dominating many universities, had ample chance to build up a rounded system of belief but did not seize it in any important way.

They continued to dispute each other on minutiae of less and less moment, excelling more in subtle quibbling (*leptologia*) than overall rationality, reducing speculation to clever logical calisthenics. The necessity for absorbing Greek and Arabic philosophy crowded out any study like literature that might liberate the spirit. Presently the disappointed world turned away from *Logos* and *Hierarches* both, back to the *Mysterion* of Martin Luther. May we not expect a similar reaction to the triviality, subtlety and irrelevance of modern economic theory?

Lester Thurow (a preacher’s son) draws a parallel between the contemporary return to fundamentalism in religion and the return to uncritical market fundamentalism and deregulationism in economic thought and policy. Reacting to

modern Scholastics who make simple things complicated, people turn back to fundamentalists who make complicated things simple. Is anyone optimizing? That is our job; let’s do it.

10. The Enlightenment: an outbreak of Sophia

In the 17th Century there came finally a use of *Logos* to interpret the data of *Chaos* without imposing preconceptions. Isaac Newton, a Professor of Mathematics at Cambridge, was also on his own account an experimentalist. He first took data from nature, *then* prepared mathematical laws based on the results. What he found, of course, was a set of universal physical laws more Platonic than anything ever deduced *a priori*. Newton avoided political-economic issues but his contemporary John Locke addressed them head-on. Locke, too, was an empiricist first, but one who entered more dangerous and murky waters, dealing with *Pathos* and *Hierarches* as subjects of study. His ideas on the necessity for a functional justification of property helped open a floodgate of Liberalism that is only now closing.

From these beginnings there followed an amazing three centuries of scientific, economic and social development. The leading lights of classical political economy were rarely trained to be such, but included physicians (Locke and Quesnay), men of affairs (Turgot, Du Pont and Ricardo), and philosophers (Hume, Smith and Mill). Leading radicals in the classical tradition were journalists (George, Marx) and the co-discoverer of evolution (Alfred Russel Wallace). All these were synthesizers who, whatever their failings and foibles, observed the *Chaos* of nature before building systems to order it by *Logos*.

11. Property strikes back: neo-classical reaction and Platonic revival

Hierarches could abide the classical economics of Locke, Hume, Smith and Ricardo, who stopped short of challenging the distribution of wealth. Quesnay’s slogan of *laissez-faire*, and Smith’s good name were even coopted, after their deaths, as bywords for social conservatism, although that was no part of their intention. Mill, however, came close to kicking over the traces. George and Marx went the rest of the way, showing how to use classical economics to rationalize radical redistribution of wealth.

The inevitable reaction came to be called neo-classical economics, as though it were simply an evolution of classical economics. No single figure personifies the change, but J.B. Clark exemplifies it. His aim was to undercut Henry George’s attack on landed property by erasing the classical distinction of land and capital. His method was to endow capital with a Platonic essence, a deathless soul transcending and surviving its corporeal embodiment. Some characterize Clark’s concept as “jelly capital,” but that rather trivializes the power of ancient Platonic traditions and ideas he could marshal to support it. The ecstasy evoked in some souls had a strong Cartesian resonance of *Logos* mingled with *Mysterion*: (continued on page 8)

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"When ... he published *The Distribution of Wealth*, the logical beauty and precision of the system of theory there displayed was like an illumination from Heaven to many of those whose goal for economic science was the reduction of economic life to terms of law and order" (Paul Homan, *Contemporary Economic Thought*, 1928).

"Law and order" also, of course, connotes *Hierarches*. Clark's capital being deathless it is just like land, and theorists after Clark have made land just another kind of machine. The economic world was thenceforth divided into just two elements, labor and capital. As James Tobin noted, "... that destroys the equality of capital to accumulated savings, and dismisses all Ricardian and Malthusian problems in one fell swoop." ("Neoclassical Theory in America," *AER*, Dec. 1985.)

The hypersensitive issue of functional distribution, the core of classical economics, became a residual twig on the branch of "production economics." In discussing distribution, the only permissible concept of cost was no longer labor cost but opportunity cost, which all resources have in common. (Somewhat inconsistently, when discussing price formation and inflation, usually only labor cost is considered.) Clark's model has dominated the field for nine decades. Today, Tobin notes, Clark's model is used by Denison in analyzing growth rates; by Summers analyzing tax incentives for saving and investment; by Gramlich analyzing public deficits; and by Feldstein analyzing social security.

August Comte, founder of "Positivism," taught that all science deals either with relations of coexistence or relations of sequence. Production economics as taught today deals solely with relations of coexistence, ignoring relations of sequence. The popular Cobb-Douglas function exemplifies the point. Sequence virtually disappeared from standard economics until Keynes revived it in a macroeconomic context. Even Keynesians had to work out a "vertical" or instantaneous multiplier to communicate with people whose system of cognition left them uncomfortable with matters of sequence over time.

It is not surprising the original Austrian economist Bohm-Bawerk, with his interest in capital theory, disputed Clark on the concept of capital; and the later Austrian Hayek continued the dispute with the later Clarkian Frank Knight. But "Austrian" today has degenerated, like *laissez-faire*, into little more than a code word for reactionary. Neo-Austrians have abandoned the field, and grown silent on periods of production and the problem of excessive deepening of capital.

Production economics, meanwhile, has evolved into manipulation of symbols purporting to represent quantities of labor and capital conceived as substitutes at a point in time. Micro theorists avoid handling the sequential relationships, that labor produces capital and investment employs labor. They avoid defining capital, and explaining what unit of quantity measures it. The abstract axiomatic reasoning in microeconomic theory that students are forced to take as "The Core" of economics deals exclusively with these stylized relations of co-existence ignoring formation, measurement, meaning, depreciation and replacement of capital. Appreciation of

land gets short shrift.

Time, which plays so explicit a role in Newton's physics, is handled clumsily by Clark's metaphysical descendants, using the ideas of long run and short run and equilibrium. These awkward ideas are occasional embarrassments and yet survive because the alternative would entail restoring the classical distinction of land and capital. Clark's treatment of capital confuted much of Marx as well as George. *Das Kapital*, Book II, deals entirely with the circulation (turnover) of capital. With Clark, capital is eternal and turnover is irrelevant. Indeed, among Clarkians the very concept of a period of production or investment (the reciprocal of turnover) is anathema.

After Clark and Knight scoured time and sequence from economic theory it had to resurface somehow, and did so in the Keynesian movement. After years of strife over how to assimilate Keynes, the strife made vain by cognitive dissonance, the parties divided theory into micro and macro. The cognitive system of Micro limits it to treating relations of coexistence; the cognitive system of Macro limits it to treating relations of sequence. This division is not inherent in the subject matter, which it maltreats. Failure to resolve this Great Schism of modern economic theory is a scandal that impoverishes both Micro and Macro so severely that neither can deal adequately with its subject matter.

Micro and macro need more than reconciliation. Keynes' treatment of sequence suffers from being as Platonic, in its way, as Clark's dismissal of sequence. In Keynes' system flows of spending drive the material world. Spending is the Platonic reality. Check-clearing and electronic transfers of symbols are Real; the material world is a reflection of those Realities. To the classics, money was only a veil. In Keynes, money and spending are The Original Cause. When Ricardo and Mill wrote of circular flows they focused on flows of real capital; money was just a convenience, a tool. In Keynes, flows of funds are the substance of which the material world is but a shadow.

The upshot is both Micro and Macro have become Platonic allegories, exercises in manipulating symbols. These symbols are many steps removed from the *Chaos* they purport to order and the *Pathos* they purport to represent. Their social function is mainly that predicted by Spinoza, "not so much to cultivate men's minds as to restrain them."

12. What can we do?

Ultimately we need to recast economic theory along more useful, functional lines, some of which have been intimated *supra*. Micro theory needs to comprehend "nature begetting" —that is capital formation, rising land prices, and other relations of sequence; not just "nature begotten"—that is allocation and substitution of given resources, perceived as relations of coexistence. Macro theory needs to climb down from its Platonic preoccupation with manipulating financial symbols, and look at material wealth and capital themselves, as Ricardo did in his Chapter 1 on value. Macro needs to incorporate "structural" insights now relegated to Micro to help explain its problems of unemployment and the determination of national income. Capital theory and

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distribution theory are two obvious topics to use to integrate Micro and Macro.

Meantime, academicians of good will can lay the groundwork in a number of commonsense ways.

A. Halt the imperialistic expansion of required theory courses.

B. Let students study theory after their applied or field courses. Then theorists will be reasoning not from axioms but to explain data.

C. Let theory be taught by persons from applied fields, not by specialists in theory alone. As the Hebrew teacher Gamaliel said, "every learned man who fails to acquire a trade will at last turn out a rogue."

D. Teach from the classics, not just the moderns. The best from three centuries is bound to excel the best from the last five years, because of the wider selection. Modern writers may have the advantage of hindsight to separate the wheat from the chaff, but it is not clear it is the chaff they have discarded. Selective updating is no better than the modern selector; modern imitators seldom upgrade classic originators, but too often pervert, misapply and Bowdlerize them.

Modern texts improve on Wicksell about as much as Elton John improves on Beethoven, and Louis Lamour on Shakespeare. Nothing deepens a student like historical perspective, else in his first article the student will give the name of some modern writer to ideas two centuries old, and no modern reader will notice.

Reading classics lets students decide for themselves if the Austrian period of production has been refuted, and if so how, when, why, and by whom. Let students decide if the wages-fund theory is false, and if Mill really recanted it. Let them read Jevons and Walras themselves, rather than believe the deluding characterization of some hasty text writer who fancies himself a judge because he lives a century later.

E. Unmask and expose everything phony and venal. Keep alert to the historical tendency of organizations to degenerate and regress toward the mean, and of insecure philosophers to use ink like the squid to blind the world about them. Accept the need of uncharitable measures to combat intellectual fraud, the ultimate white-collar crime which is the more dangerous for being legal. Bend backwards to avoid *dicaeologia*, the vice of selfrighteousness that excuses one's crimes by one's circumstances; but be willing finally to play rough, considering that malice to frauds is charity to students.

Purge classes and journals of pomp, conceit, cant, obscurity, digressive convolution, mysticism, and claims of exclusive jurisdiction. Sensitize colleagues and administrators to the classical unfair devices of rhetoric used by academic operators to sell themselves to Deans and Vice-chancellors and Senate Committees. Even ridicule is justified to shame authorities away from "falling for" ancient fallacies and tricks.

F. Give respectful attention to novel ideas and challenges originating outside the profession. Never join a multitude of one's colleagues to bear witness against supposed heretics who are un- or underrepresented in the forum.

G. Avoid dependence on grants and patrons. Teaching

is an honorable trade and a living, to support the research enterprise. Public funds are acceptable when viewed as a form of social dividend for students. Avoid ambitious expansion and grantsmanship at the loss of independence.

H. Require enough math and stat for command over basic skills, and tooling up receptive minds for conceptual and quantitative reasoning. Beyond, say, differential equations, require nothing but cooperation with math and stat departments to keep relevant courses available. By no means disparage these studies; just be wary of any neo-Cartesian imperialists.

Tolerate and even embrace social radicals, especially practical applied ones on the model of John R. Commons. Toleration should cease at the point where radicals go Platonic and hierarchical, demanding to impose their own preemptive theory on all students.

I. Keep public service and public policy uppermost. It is enough to rationalize self-interest at the public expense, one need not practice it exclusively. Beware the travesty of market reasoning that says "Our discipline glorifies profit-seeking; how then can we profit most from our discipline?" We are a Levitical class and as such owe primary loyalty to the public.

Recognize public service as academic service, within reason. A tragedy of academe is the shabby reception the Platonists gave Walter Heller when he returned to Minnesota after serving his country so well. Public service also generates its own conceits and cliques which pose a risk, and there is no simple formula to cover all cases. However, no corruption is as deadly as the irrelevance and sterility of theory today.

J. Understand and keep alert to the constant pressures Babbity brings to bear on administrators; apply constant counterpressure.

K. Be yourselves. When Chairman Mao said "Let a hundred flowers bloom" it was only to mow them down. Here there is no external Mao, but each timid academic carries his internal censor. What a waste it is of hard-won American freedom to submit to the tyranny of *apodixis*, the academic Mrs. Grundy. Bear in mind how impressed with Jesus his hearers were "because he spake as one with authority, and not as the Scribes and the Pharisees." Let no one silence or subdue you by invoking shame of arrogance.

L. Encourage breadth. The menace of today is from the ants, not the grasshoppers. There are now thousands of Doctors of Economics who know nothing of history, government, literature, linguistics, semantics, industrial organization, composition, ecology, mores, law, geography, chemistry or culture, but fancy they can teach and write in a social science because they know some highly recondite quantitative or analytic skills, and can speak in tongues. Most seminal advances come from the interfaces among disciplines or, indeed, among ways of life.

M. Allow no rigor for its own supposed benefits, only as means to some legitimate end. Students endure too much privation without making it an overt objective.

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N. Learn from the successes of others. In Christianity, "The Word (Logos) was made flesh, and dwelt among us, ... "The Word made flesh became more than Mysterion, it knew and evoked Pathos; it survived as a carpenter; it coped with Hierarches; it told homely stories; it manifested Sophia. Economists will interest and move more students when their words, too, are made flesh.

With such convictions and practices Academe may yet gain control over the travesty of Logos now rampant, and bring Sophia into the discourse.

13. Suggested Sequel

Following Sophia, an even higher form of wisdom might be called Kosmos. This was von Humboldt's term for what we now call ecology, the study of how the parts all fit together. Many economists have seized on "general equilibrium" as pioneered by Leon Walras, as our Kosmos, or at least the micro-economic Kosmos. However, this entails solving a huge number of simultaneous equations that are, well, simultaneous, leaving out time. Ipso facto, that means leaving out space as well, since it takes time to traverse space. Time is actually as integral a part of economic life as of physics; without time there would be no Laws of Motion, for example. To save time and space here, we leave Kosmos for a sequel.

(GroundSwell does not have room for footnotes, but they are available from Economics Professor Dr. Mason Gaffney at m.gaffney@dslextrême.com) <<

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