The Preacher as Economist vs. *The Economist as Preacher*
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I'd like to thank our sponsors—the James Madison Program at Princeton University, the Princeton University Center for Human Values, The Center for Research on Religion and Urban Society at the University of Pennsylvania, and The Providence Forum—for inviting me to participate in this conference on "Faith and the Challenges of Secularism." As Seana—Dr. Sugrue—told you, I have a special attachment to the James Madison Program, having been in its first crop of Fellows two years ago. I am grateful to Prof. Robert George for taking the risk of planting me there; and to the Madison Program staff—Dr. Seana Sugrue, Jane Hale, Linda Kativa, Judi Rivkin and now Reggie Cohen—for tenderly nurturing the seedling while it was in their care.

**Providence and G.K.C.** When Princeton and the University of Pennsylvania gather under the watchful eye of Providence, how can one help feeling its guiding Presence? My ears pricked up when it was mentioned yesterday that Dr. Armand Nicholi, in addition to his many other accomplishments, had produced a TV show titled, "The Question of God: C.S. Lewis and Sigmund Freud Discuss God, Love, Sex and the Meaning of Life." Ten years ago I co-scripted and helped produce a play re-presenting a debate between G.K. Chesterton and George Bernard Shaw (with Hilaire Belloc in the chair), based on their actual debates and writings. The title was "Socialism, Sex and Salvation." And through this whole conference, I have found Chesterton's aphorisms coming unbidden to memory. When a speaker explains that "secular" means "temporal" or "of the age," one immediately recalls Chesterton's reply to his incredulous friends when they asked him why he had joined the Catholic Church. His second reply, that is. His instant reply was, "To get rid of my sins." But when his friends did not take him seriously, he wrote an article in 1926 explaining "Why I Am a Catholic," and one of the six reasons was that "It is the only thing that frees a man from the degrading slavery of being a child of his age." Many of Chesterton's other formulations also seemed apt to our discussion. For example, on secularism and science: "To talk of the purpose of Nature is to make a vain attempt to avoid becoming anthropomorphic, merely by being feminist. It is believing in a goddess because you are too skeptical to believe in a god." And: The Church "does not, in the conventional phrase, accept the

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conclusions of science, for the simple reason that science has not concluded. To ‘conclude’ is to ‘shut up’; and the man of science is not at all likely to shut up.” On secularism and cultural institutions: “The modern world is insane, not so much because it admits the abnormal as because it cannot recover the normal.” And: “A new philosophy generally means in practice the praise of some old vice.” And: “’Take away the supernatural, and what remains is the unnatural.”

Unfortunately for you, I am not Chesterton. But I am happy to give the keynote address for the session on “Economics and Secularism”—a title which will strike many of you as redundant. I’m sorry that Larry Kudlow couldn’t be with us. Larry and I often found ourselves working together at opposite ends of Pennsylvania Avenue, when he was associate director for economics and planning in the Office of Management and Budget under Dave Stockman in the first Reagan Administration, and I was working for then-Congressman Jack Kemp, who had persuaded Ronald Reagan to campaign in 1980 on across-the-board marginal income tax cuts, and who in January 1981 was elected chairman of the GOP caucus in the House, the third leadership spot. This is my first chance to meet Fr. Robert Sirico of the Acton Institute, but one to which I have looked forward for several years, having read his articulate views on the issues of today’s panel, but never before having had the chance to discuss them with him.

**Faith and secularism**. We’ve had some discussion about the theme of our conference, “Faith and the Challenges of Secularism,” and whether secularism challenges faith or vice versa. I’d like to suggest that it works both ways. “Immediately before, and for a good while after my conversion, I was of the opinion that to lead a religious life meant one had to give up all that was secular and to live totally immersed in thoughts of the divine. But gradually I realized that something else is asked of us in this world and that, even in the contemplative life, one may not sever the connection with the world. I even believe that the deeper one is drawn into God, the more one must ‘go out of oneself’; that is, one must go to the world in order to carry the divine life into it.”

Those words were written by (now Saint) Teresa Benedicta of the Cross, better known as Edith Stein—a remarkable German philosopher (and former protégé of Edmund Husserl) who converted from Judaism, became a contemplative Carmelite nun, and was gassed to death at Auschwitz in 1942 for being a Jew. But I wish to call to your attention not to the person, but to the message. What is wrong, one naturally asks, with trying “to give up all that is secular and to live totally immersed in thoughts of the divine”? It’s easy to see how we might fail to reach that goal, but surely we should at least try. Yet anyone who seriously tries to start a new life on that basis, as Edith Stein evidently did, is surprised to feel him- or herself gently but firmly (and if we don’t take the hint, not so gently) shoved back. Why? Because on earth or in heaven, in point of fact, it’s *not* “just you and me, Lord.” And trying to live as if it were, oddly, can have almost the same result as trying to give up all that is divine and to live totally immersed in the secular. Either way, we fail from the start to see other persons, other things, God and ourselves, as they are; and see them only in relation to ourselves—in fact, only insofar as they are useful.

It's easy to imagine how the misimpression arises. We've all seen it in a dozen bad movies. A young Bing Crosby (with his collar turned backwards) or Ingrid Bergman (wearing a head-dress) is told, "You must learn to practice detachment, my child." But detachment is one thing we won't need to practice in order to achieve. When we die, we will be perfectly detached. To prepare for that, what we really need to practice is *at*-tachment. We humans come loaded with attachments. The whole point of the Two Great Commandments ("love God with all your heart" and "love your neighbor as yourself") is, first, to recognize our attachments, and second, to order them properly. And so, whoever and wherever we may be, the main obstacles are the same: ignorance and sin (or, if you prefer, perplexity and peculation). An Edith Stein thinks she needs to leave behind a world that doesn't know how to love God and neighbor properly, and to retire to be alone with God; but she discovers that inside the cloister, she still has something to learn—how to love God and neighbor properly! She expects to be soothed by Gregorian chant—and finds that what's actually called for is a rousing chorus of "How Do You Solve a Problem Like Maria?" All the more so if she suspects, as Edith Stein did by 1938, that she will end up in the gas chamber. That, in my view, is the challenge of secularism to faith. But the challenge is especially acute in economics, the study of the useful.

At the same time, I will suggest that in economics (if not also elsewhere), the main problem is not that there is too *little* faith and too much secularism. Rather, there is far, far too much faith, but it is misplaced: first, too much faith in the argument from human authority—in mere citation of economists' names, without logic or evidence; and second, I'll suggest, as an empirical observation, that among economists (and possibly others) the most frequent alternative to faith in the God of Abraham, Isaac and Jacob is not atheism, but pantheism.

**Overview.** I have titled my remarks "The Preacher as Economist vs. *The Economist as Preacher*." The preacher to whom I'm chiefly referring is Thomas Aquinas, the most famous member of the Order of Preachers or Dominicans. *The Economist as Preacher* was the title essay of a book by George J. Stigler of the University of Chicago. More broadly, I am suggesting that there are two different ways of understanding what it means to be an economist. One sees economic theory as an effort to discover the truth about reality, while the other sees economics chiefly as useful for persuading others to adopt one's own goals. Stigler held the latter view, and I will contrast him with Joseph A. Schumpeter. Schumpeter had demonstrated in his *History of Economic Analysis*: "The fact is that the *Wealth of Nations* does not contain a single *analytic* idea, principle or method that was entirely new in 1776."[2] Stigler is the man most responsible for what I call "Smythology": the notion that Adam Smith "invented" economics, or is somehow the indispensable key to understanding it. And Stigler's myth-making was a deliberate reaction against Schumpeter.

In my remarks, I'd like to do four things: first, describe the disaster that befell economics three decades ago; second, outline the basic meaning of

[2] Joseph A. Schumpeter, *History of Economic Analysis*, edited from manuscript by Elizabeth Boody Schumpeter, Oxford University Press, New York, 1954, 184. (Schumpeter died in 1950.)

economic theory; third, give an overview of the history of economic theory; and fourth, suggest the basic implications for persons of Biblical faith.

**A personal account.** The way in which I propose to begin is to describe for you what I did with my year in the Madison program. Economics is in trouble, with a capital "T." And that trouble affects not only economists, but also every one of you River Citizens. One symptom of the problem is that I am speaking on this panel rather than sitting in the audience. The letters after my name in the program, "LBMC LLC," are not, as one might reasonably suppose, some kind of advanced degree—perhaps an interdisciplinary compromise, between a doctorate of law (L.L.D.) and a "B.S." in economics. "L.L.C." means "Limited Liability Corporation," and "LBMC" are the initials of (Lewis) Lehrman, (Jeffrey) Bell, (John) Mueller and (Frank) Cannon, the original partners of my financial market forecasting firm.

When I was here on the Princeton campus, I didn't teach, but was constantly having to correct students who automatically addressed me as "Doctor" or "Professor" Mueller, for the obvious reason that I was wearing a tie. It unsettled them that, here I was at school, but I didn't appear to serve any useful purpose. I can't recall that any student succeeded in calling me "Mr.," perhaps because among academics the term seems to be convertible with "nobody." Still, there was general dissatisfaction with my suggestion of the old standbys, "call me a cab," and "call me anything as long as you don't call me late for dinner." As far as being an economist goes, call me Ishmael, because the whole ship's company went down to a watery grave, and I alone am escaped to tell thee. How can I account for this anomaly?

During the 1980s, Jack Kemp's office often resembled a sort of cross between a post-graduate seminar at the University of Chicago (the "supply-side" circle included at least one future Nobel laureate, Robert A. Mundell) and an unruly kindergarten rehearsing for a performance of "The Music Man." All the boys wanted to play the lead role, and were pointing their fingers at one another and shouting at the teacher, "He's a fake, and he doesn't know the territory!" Kemp had hired me to write speeches, but at the tender age of 26, I found myself in the position of the unfortunate teacher's aide who, because of her youth and height, is pressed into playing the role of Marian the Librarian. In retrospect, what was striking was that, among a group of intelligent people largely educated or at least influenced by the same economics department, no one could seem to agree on even the most basic facts about the history of economics: who said what, when. Aristotle said that all knowledge begins with wonder. And so it proved with me. I began to wonder which, if any, of these characters knew what he was talking about.

Like Marian the Librarian, I was badly educated, but not uneducated. Marian didn't have a degree in music, but she knew how to look things up. And she recognized the colossal ability of the humblest fact to demolish the most elaborate story or theory: such as whether it was possible for "Professor" Harold Hill to have graduated from the Indiana Conservatory, Gold Medal Class of Ought-Five, if the conservatory wasn't founded till Ought-Six. I had at my disposal the Library of Congress, or rather the Congressional Research Service, which is the department devoted to supplying the research requests of Members of Congress (often the same afternoon) and I was forced to make liberal use of it. After 10 years of this, I found that by this fluke I knew more about the history of economics than almost all Ph.D.'s I had met. But I later discovered the humbling truth: almost any editorialist or (for that matter) diligent reader of the daily newspaper knows almost as *little* about the history of economics as any Ph.D. economist.

**The Economist as Preacher.** What I did not realize was that, one day in 1972, the University of Chicago's economics department, on a motion by George Stigler, had abolished the requirement that Ph.D. candidates learn the history of economic theory; and that the economics departments at most other major universities quickly followed.[3] I don't have time to tell the fascinating story of Stigler's own reversal of attitude toward the history of economic theory. In 1950, he was arguing that economic theory advances by becoming simpler, by explaining more of the facts, and above all, by posing "refutable implications."[4] But in 1955, he had begun to argue that great economists are not those whose ideas turn out to be right, but rather "those who influence the profession as a whole"[5]; and that, since "new ideas are even harder to sell than new products," to become influential, economists must necessarily use the "techniques of the huckster": "repetition, inflated claims, and disproportionate emphases."[6] Stigler eventually called this new approach "the economist as preacher."[7] Rather than being someone trying to discover the truth about certain things, according to Stigler, "A scholar is an evangelist seeking to convert his learned brethren to the new enlightenment he is preaching."[8] In 1969, Stigler told his fellow economists, in effect, to "abandon HoPE." His contribution to the first issue of the journal *History of Political Economy* (HoPE) was an essay posing the telling question, "Does Economics Have a Useful Past?"[9]—which Stigler essentially answered in the negative.

What's important for my story is simply to establish the fact that, after a campaign by Stigler, the history-of-theory requirement was universally abolished. This had two far-reaching consequences.

First, of course, for the past three decades, American economists have been educated in substantial ignorance of the history of their discipline. This meant that their professors not only lost touch with that field (which was being revolutionized by absorbing Schumpeter's *History of Economic Analysis*) but

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[3] Robert Leeson, "The Chicago Counter-Revolution and the Sociology of Economic Knowledge," Working Paper 159, Economics Department, Murdoch University, Murdoch, WA, Australia, July 1997, endnote 62.
[4] George J. Stigler, "The Development of Utility Theory," *Journal of Political Economy*, Vol. LVIII August and October, 1950, 155.
[5] George J. Stigler, "The Nature and Role of Originality in Scientific Progress," *Economica*, Vol. XXII, November 1955.
[6] Ibid.
[7] George J. Stigler, *The Economist as Preacher and Other Essays*, University of Chicago Press, 1982.
[8] George J. Stigler, *Memoirs of an Unregulated Economist*, Basic Books, New York, 1988, 211.
[9] George J. Stigler, "Does Economics Have a Useful Past?" *History of Political Economy* 1 (Fall 1969).

were suddenly free—almost invited—to fill the vacuum by making up "Whig histories of economics" and foisting them on their students. Now, the point of history is that it goes in only one direction: forward. A "Whig history" insists on reading history backward: viewing the past as a grand ascent to the pinnacle of the present—namely, ourselves. A "Whig history of economics" begins by identifying some modern school—like the Chicago School or the Cambridge (a.k.a. Keynesian) School or the Austrian School—as the unsurpassable culmination of economic theory, and interprets the past in its terms. The actual originators of important theories, if recognized at all, are claimed as "forerunners": as "proto-Chicagoans," "proto-Keynesians" or "proto-Austrians," according to the taste of the historian. Though many of these "Whig histories of economics" are relatively innocuous, they all fit Hannah Arendt's succinct definition of an "ideology": a world-view that requires its adherents to create a "fictitious world" that falsifies the facts.

The second consequence was that the loss of contact between economic theory and the study of its own history greatly narrowed the range of economists' approaches to economic problems. Schumpeter had written, "I believe that there is an incessant give and take between historical and theoretical analysis and that, though for the investigation of individual questions it may be necessary to sail for a time on one tack only, yet on principle the two should never lose sight of each other."[10] As I will argue, the economics profession now finds itself in a predicament from which it can be rescued only by being reconnected to its historical roots—roots from which it is now institutionally cut off.

**Economics as mathematics.** Mere curiosity about the history of economics would not have been sufficient to motivate me to explore the issue some 15 years later, as I did here at the James Madison Program. In the meanwhile, I had confronted the fact that economics is not only a branch of moral philosophy but also empirical and mathematical. My tasks evolved away from speechwriting to crafting legislation, of which perhaps the most complicated single effort was the Kemp-Kasten tax reform bill, which was one of the two main prototypes (the other being the Bradley-Gephardt plan) that resulted in the tax reform law of 1986.

The political ground-rules had changed since the 1981 tax cuts. The new legislation would be "revenue-neutral"—a much more highly charged process, since any tax cut for one group had to be balanced by a tax increase for someone else. The basic idea was to drastically lower the marginal tax rates from a maximum of 50% (it had been 70% in 1980) to 28%, while removing millions of taxpayers from the rolls by increasing the standard deductions and personal exemptions. All this had to be paid for by ending tax deductions, each of which was hotly defended by interest groups.

I can give you an example of how this was accomplished, concerning a feature of today's tax code with which I had something to do: the doubling of the personal exemption from $1,000 to $2,000. (Because of indexing for inflation, its size has since increased to $3,050 in calendar year 2003.) The Treasury had

[10] "Change and the Entrepreneur," in *Essays on Economic Topics of J.A. Schumpeter*, Richard V. Clemence, ed., Kennikat Press, Port Washington, N.Y. 1951, 259.

claimed that it was impossible to go beyond $1,200, because the data showed that the tax cut would go disproportionately to upper-middle-income families and thus shift the tax burden downward. But I realized that this was in large part due to the fact that the tax distribution tables are not adjusted for age. The personal exemption seemed to go to upper-middle income families because most families with dependent children who can benefit from the exemption are nearing their lifetime peak earnings (which typically occurs around age 50) and thus are in higher tax brackets, and because lower-income taxpayers are disproportionately childless: particularly retirees whose incomes have fallen after retirement, but also young persons whose incomes have not yet risen to their peak in middle age; the relatively few low-income families with dependent children don't pay any income tax, and thus can't benefit from a deduction. I also noticed, however, that the tax deduction for consumer interest—auto loans, credit card interest, and so forth—was distributed almost exactly the same way as the personal exemption. And it occurred to me that this is because families are largely unable to borrow for educating their children, because unlike an auto, a boat or a house, the collateral that secures an education loan is embodied in a human person. So families borrow against their property to fund investment in their children's "human capital." Well, this suggested a simple solution: abolish the consumer interest deduction (which was received by a lot of people who didn't have children), and use the money to double the personal exemption. So doubling the personal exemption was possible without shifting the tax burden by income class. It was an instance in which "static" revenue estimates worked for rather than against a good change in tax law.

**Becoming unemployable, and employable again.** The experience, however, taught me to think quite differently from most other Republican economists. I had come to the realization that the columns of numbers are actually a concise summary of the economic aspect of American families' lives. It was and is the growing consensus among the other economists that the tax code should move from the income tax (which is levied on both labor and property income) toward a so-called "consumption" tax (which is effectively levied only on labor income); also, that Social Security retirement pensions (which are claims on labor compensation, the return on "human capital") should be "privatized" or replaced with financial accounts (which are claims on property compensation, the return on "nonhuman capital"). But running the numbers told me that the plans' advocates had not done their homework, and that both plans were not only economically counterproductive, but political losers for the Republican party (since both would require a tax increase on middle income families while cutting taxes drastically at the highest incomes). I believed that my analysis was confirmed when the consumption tax self-destructed in 1996 and Social Security privatization in 1999. But by the late 1980s I could already see that my views were becoming embarrassing to my boss, and also that they made me essentially unemployable as a Republican economist elsewhere in Washington.

In the poker game of academic credentials, I'm holding a pair of deuces. But there are two places, you will be shocked to learn, where a B.A. outranks a Ph.D.: Washington, D.C., and Wall Street. The premium in Washington is on being able to collate and distill a huge number of disparate, complicated social, political and economic facts, and explain them to a Congressman or Senator in simple declarative sentences, so that he or she in turn can explain them to the voters. For most of my time in Washington, the chief of staff at the Senate Budget Committee was a former English major, Steve Bell. Similarly, on Wall Street, investors want to know what you can do for them in the near future, not what you did long in the past. There's no tenure. Investors must make big decisions with fragmentary information, and you're only as good as your last forecast. For the past two decades, the Wall Street economist ranked first by institutional investors has been Ed Hyman, who doesn't have a Ph.D. Investors like him because he's entirely oriented to gathering an enormous flow of facts that are not widely known, and fitting them into a predictive pattern.

Like the unjust steward in the parable, I was ashamed to beg and could not dig ditches, so a couple of friends and I decided to try our luck at starting our own economic and political consulting firm, with me as the economist. Though I had until then been chiefly concerned with understanding and prescribing economic policy, I was surprised to discover that the experience had provided me with a set of marketable skills: the ability to predict the likely results of economic policy for the U.S. and other countries. Predictive numbers-crunching is basically what I've done for a living over the past 15 years. For most of that time I've been one of the usual suspects in the *Wall Street Journal* survey of economists. My clients have been mostly money managers, and, in several cases, governments looking for advice on lowering unemployment or ending inflation.

**"Burn the mathematics."** Alfred Marshall once gave another economist this excellent advice: "(1) Use mathematics as a shorthand language, rather than an engine of inquiry. (2) Keep to them till you have done. (3) Translate into English. (4) Then illustrate by examples that are important in real life. (5) Burn the mathematics."[11] In other words, in principle, mathematics cannot go beyond what can be said in English, but it does serve some very useful purposes: checking whether a theory is logically complete, discovering its implicit assumptions, and quantifying its predictions.

Once you realize this, math loses its mystique. You become a man of simple pleasure, like Mr. Micawber: "Annual income twenty pounds, annual expenditure nineteen pounds six, result happiness. Annual income twenty pounds, annual expenditure twenty ought and six, result misery." But for a practicing economist, the balance of happiness and misery is determined by the number of equations and the number of unknown variables: Four unknowns, four equations, result happiness. Four unknowns, three equations, result misery.

In the process, I came to suspect that most of the salient difficulties and bizarre results in economics are the result of having more unknowns than equations. (A famous recent paper, purporting to show that the decline in crime in the 1990s was caused by the legalization of abortion in 1973, is a good example.) Because of the missing equation, economists either have to resort to

[11] Marshall to Bowley, 27th February 1906, in *Memorials of Alfred Marshall*, edited by A.C. Pigou, 427.

circular logic or else to replace variables with constants (and thus prescribe rather than gather the facts about reality), or both. So in my James Madison Program year I tried, in effect, to trace economics to its logical and mathematical roots. But I discovered that someone had been there before me: Thomas Aquinas.

**The Preacher as Economist.** Thomas Aquinas was a member of the Order of Preachers, which was started in 1215 by Dominic Guzman, who had the novel idea that the best way to get rid of heretics is not to burn them at the stake but to persuade them to be orthodox. And Dominic recognized that persuading someone to agree with you requires you to work back from your obvious disagreement to the point at which you can agree. With schismatic Christians you can appeal to the authority of the New Testament; with Jews you can appeal to those Hebrew Scriptures which are called by Christians the "Old Testament." But for everyone else, there is no common scripture, so you must reason from commonly shared experience. The Dominicans were trained accordingly, and this meant mastery of both scripture and the best available secular knowledge.

Nowadays, the Dominican order presents a somewhat sleepy aspect, but remains true to its origins. I was taught by Dominicans for two years in high school, and the flavor of the order is captured by the story (which may be apocryphal, especially if it stems from the Middle Ages) about a man who jumps out of an airplane with a parachute and gets hung up in a tree. A priest in a white cassock down below looks up from his prayerbook and calls up, "I perceive, sir, that you are stuck in a tree." The parachutist looks down and says, "And I perceive, sir, that you are a Dominican: What you say is true, but it doesn't seem to help." The Dominican begins with an observation of the facts and a judgment about them. It may not seem to help; but everything helpful must flow from it. If the man up a tree denies the fact, and says that it's all a matter of perspective, that he simply doesn't choose to stoop to the other's level—then he stays up a tree.

In the 13th century, the Order of Preachers was brand-new, and its commitment to combining lives of evangelical poverty and secular learning attracted and electrified both supporters and attackers. The nearest thing to it that we have today is probably Opus Dei. When the subject came up last week, my son Peter said, "Opus Dei? I've heard rumors that some of those guys wear hair shirts under their clothes." (I should explain that my son attends a school run by Benedictines, and that the students consider The Heights, a school run by members of Opus Dei, to be their arch-rival.) I started to reply that I had been to some of their spiritual retreats and hadn't noticed any such thing. But then it hit me—the whole lot of them could have been wearing hair shirts the whole time, and we would never have known! Why, the person sitting next to you right now could be wearing a hair shirt. (In fact, that person has been shifting rather uneasily since this panel on economics began.) Not that there's anything wrong with wearing a hair shirt, mind you. After all, it's a free country. But what's so obviously un-American is to wear a hair shirt *under* your clothes, where no one else can see it (and where you can't benefit your neighbors).

The objections to the Dominicans were also of this ilk. There's a famous poem called "The Hound of Heaven," and in the 13th Century the Dominicans were hounds of heaven; at least their detractors split their Latin name—*Dominicanes*—into two words: *Domini canes*, "the Lord's dogs." Thomas Aquinas, you might say, was a Bloodhound of Heaven, because he sniffed ideas right to their sources.

**The meaning of economic theory.** In his economic writings, I believe that Aquinas has given us, in effect, a schematic outline of the human person from an economic angle. I believe that the whole of economics contains only four elements, which were first gathered by Thomas, though none is original with him. In fact, the four elements are entirely derived from two sources: Aristotle and Augustine. Aquinas's genius lies entirely in the arrangement: that is, in recognizing that a whole picture of human nature requires combining the insights of both men. And I believe that it contains the first complete statement in history of what is involved in any human economic action, a description which is not only formally complete but also valid at any level of aggregation, from a single person to the whole world economy. Each of the four elements can be named in a word or two, and stated in a sentence. These are, if you will, the "first things" of economics.

I'd like to state the outline and then look at it from three angles: first, from the point of view of an economist (which is how I arrived at it); second, from the common-sense point of view of a non-economist; and third, as a key to understanding the history of economic theory and its implications for persons of faith.

*1. Utility*. We value scarce means according to their usefulness in satisfying human wants.

*2. Production*. We produce such goods by combining the services of labor and capital—or rather, workers and property—both of which are "reproducible."

*3. Equilibrium*. The sale of each product, under competitive conditions, provides the compensation of its producers—that is, labor compensation for the workers and property compensation for the property owners.

*4. Final Distribution*. The "ends" (or purposes) of economic action are always persons; and the significance of persons to the acting person is expressed by his or her distribution of the scarce means for final use among them (including him- or herself).

From the point of view of an economist, what's important is that what I have just described in words is also a system of equations, in which the variables correspond to measurable realities.[12] I'd also like to emphasize that, so far at least, this theory is purely descriptive or "positive." It describes what is, not what ought to be.

Now, what does this mean in plain English? It means that all human economic activity raises and answers three questions, in the following logical order: First, *for whom* shall I provide? Second, *what* shall I provide? And third, *how* shall I provide it? When there is no exchange, the *how* is a one-step process: simply producing the chosen means from available resources as

[12] See attached table below.

efficiently as possible. But whenever exchange is involved, the *how* is a two-step process: each person first produces something that someone else values more highly than the good he or she has produced; and then those who prefer the other person's good exchange for mutual benefit.

To grasp this logic, take an everyday example: What happens, in these terms, when a woman plans, prepares, and serves a pot-roast dinner for her family and friends? The theory of *final distribution* answers the question *For whom*? It is necessary to explain why these particular persons, out of all others in the world, were chosen to consume the dinner. The theory of *utility* is necessary to explain *what* the woman serves: Why pot-roast rather than, say, macaroni and cheese? (If my wife is any guide, the woman might well prefer macaroni and cheese if she were cooking only for herself, since it's easier to prepare. But she also has an idea of the preferences of the people she has invited to share the meal. She prepares the more troublesome meal because her gift would be diminished if she set aside the others' preferences in favor of her own; hence the pot-roast.) The theory of *production* is necessary to explain *how* pot-roast actually materializes on the table. This embraces a whole range of efforts, from the cattleman and farmer to the butcher and grocer to the woman herself. And it also includes the production of goods in which she and her husband participate to earn the money to buy the ingredients for the meal. The theory of *equilibrium* ties all three aspects together: explaining how everything is paid for through the exchange of goods and services for money, and of money for goods and services; and more broadly, whether and how everyone else in the community managed to execute their dinner plans for the same evening.

**The sources of descriptive or "positive" economic theory**. Now let's begin to look at the same ideas in historical perspective. First, where did these elements of theory originate? Since all are necessary for a complete economic explanation, the order in which we consider them is somewhat arbitrary.

*1. Utility*. That economic value is based on utility was briefly suggested by Aristotle (*Ethics* V, 5), who called it *chreia***,** or "need." But the theory of utility, using the word in this sense, was first explicitly described by St. Augustine. When we consider things in themselves, Augustine said, we recognize a kind of "scale of being," ascending all the way from inanimate objects to living plants to sentient animals to rational humans to God. Each thing's being, and thus its inherent goodness or value, is utterly unaffected by any human's attitude toward it: It is what it is, no more and no less. "This is the scale according to the order of nature," said Augustine, "but there is another gradation which employs utility as the criterion of value" (*City of God* XI, 16). Utility is the value of any thing considered, not in or for itself, but as means to some other end intended by the evaluating person. For example, Augustine noted, the intrinsic value of a live mouse—a sentient being—is obviously higher than that of a plant; yet most of us prefer loaves of bread (which are made from dead plants) rather than live mice in the house. The natures of the mouse and the wheat are the same whether there exist one or a billion specimens of each; but the order of our preference according to utility is affected by the relative scarcity of the goods. (The world's only specimen of a certain kind of mouse might be worth a lot of "dough.")

*2. Production.* Utility causes us not only to reappraise but also to rearrange the things we find in nature, to produce combinations we value more highly. Though the decision to produce one kind of good rather than another is directed by *utility*, the *production* determines the amount of resources actually available for distribution and final use. And since *production* alters the relative scarcity or abundance of the goods, it in turn affects people's estimates of relative value. How are goods produced? Aristotle remarks in *Politics* I, 4 that "any piece of property can be regarded as a tool enabling a man to live; and his property is an assemblage of such tools." Some tools are used to minister directly to human utility ("consumer goods"), while others minister indirectly, by helping to produce the tools that minister directly ("producer goods"); and some are versatile enough to serve either purpose (e.g., a human mind or a personal computer). Also, Aristotle observes that "tools may be animate as well as inanimate; a ship's captain uses a lifeless rudder [for steering], but a living man for watch; for the worker in a craft is, from the point of view of the craft, one of its tools." In other words, wealth may take either of two forms: what modern economists call "human capital" (the useful qualities embodied in human persons) and "nonhuman capital" (the useful qualities embodied in property). To produce more of either kind of wealth usually requires a combination of both human and nonhuman capital. In Aristotle's day, both were products of the household—a business was simply a merchant's or craftsman's household, just as a government was essentially a king's household—and slaves were a significant part of human capital. In modern times, the Christian understanding of the human person led to the abolition of slavery, and the economic functions of the ancient household differentiated into more specialized entities—notably the modern business firm, which specializes in producing nonhuman goods, and the modern household, which specializes in "producing" and sustaining human persons.

*3. Final distribution.* Our ranking of things, not by their inherent value but their value *to us*, involves the choice of both ends and means. Augustine appears to have been the first to say that economic choice always involves two kinds of preference: one scale of preference for selecting persons as ends, and another for selecting the scarce means, of economic activity. While *utility* is the ranking of things as means, our ranking of persons as ends of economic activity is expressed by our distribution of scarce means for final use—*final distribution*, for short. Augustine was hardly the first to say—as Emmanuel Kant would say long after him—that persons *ought* to be treated as ends and not merely as means. What sets Augustine apart as an analyst is his empirical observation that every human *does*, as a matter of fact, always act with some *person(s)* as the ultimate end or purpose of action. Earlier philosophers had debated whether happiness lay in making one's highest good wealth or fame or knowledge or moral virtue or pleasure; but Augustine sliced through all this. A miser is said to love money as his highest good, noted Augustine—yet he still parts with it to buy bread to continue living, thus showing that his deepest motive is love of self, not money (*On Christian Doctrine*, I, 26). Yet it is not the case that every human acts *solely* for him- or herself. That is precisely what each person is free to decide. Every economic choice is a moral choice.

By what principles do we distribute our wealth among person? Aristotle had pointed out that every social community—whether a household, a business partnership or a whole society under a single government—necessarily has a principle for distributing its common goods among its members, which he called the community's "distributive justice" (*Ethics*, V, 3). But publicly owned common goods account for only a fraction of all wealth and income, because most wealth is privately owned by the persons in households. Augustine extended the analysis to embrace *all* goods, by observing that every human person, by virtue of his natural interdependence with other persons, also has a principle for distributing the use of his wealth between himself and other persons: the degree of his love for the other persons relative to himself (*On Christian Doctrine*, I, 28). If there are only two of us, and I love you *equally* with myself, I give you half of my resources. Generally speaking, we *give* our wealth to the people we love (including ourselves), and *exchange* our wealth with people we don't. Two persons agree to an exchange when the persons who are the ends or purposes of their action do not coincide (for example, I want to provide for my family, not yours, while you want to provide for your family, not mine), but the means they have chosen are compatible (I offer something useful to your family in order to receive something useful for mine). "The specific characteristic of an economic relation is not its 'egoism,' but its 'non-tuism,'" as economist Philip Wicksteed put it—*tu* of course being Latin for 'Thou,' as *ego* is for 'I.' "The economic relation does not exclude from my mind everyone but me, it potentially includes everyone but you."

*4. Equilibrium.* The three irreducible aspects of economic activity (*utility, production,* and *final distribution*) are present without exchange. But ordinarily we are not considering a Robinson Crusoe, but rather a community integrated by exchange, money, specialized production, and the legal, social and political institutions that this entails. Aristotle suggested that the compensation of the producers comes from the sale of their product, and that the amounts depend on their respective contributions to the value of that product (*Ethics* V, 5). At least, this is how Thomas Aquinas' teacher, Albert the Great, and all later scholastics read him. Equality of product value and factor income under competitive conditions is necessary for economic *equilibrium*, or justice in exchange, and for the very continuation of the economic system. But such equality can come about only in the absence of monopoly and other obstacles to an effectively functioning market; because only then can no party rig market prices to its own advantage. The normal price determined under competitive conditions was once called the "just price," and now the "equilibrium price." (The notion that the medieval just price was determined by distributive rather than commutative justice, and specifically by social status rather than economic conditions, is an error that has been traced to a late 19th-century British historian.) The immediate relevance of "justice in exchange" in a modern economy has been underscored recently by the economic damage to consumers, investors and workers that resulted from monopoly, insider trading, self-dealing and fraudulent business accounting.

**Prescriptive or "normative" scholastic economic theory**. The descriptive or "positive" economic theory of the scholastics was integrated with their prescriptive or "normative" economics. The virtue of Augustine's theory of choice is that it can equally describe the behavior of both the person who observes and the person who violates moral norms. The good and the bad person alike require some wealth to live, both find utility in real or imagined "goods" (not "bads"), and both derive this utility from their love for some person or persons. The whole difference lies in the order in which these ends and means are ranked. The good man treats at least some person(s) other than himself as ends and only lower things as pure means, while the bad person may rank every person but himself as mere means. The moral norm governing preferences for the ends and means of economic action consists of the Two Great Commandments: "You shall love God with all your heart, soul, mind and strength" and "You shall love your neighbor as yourself" (Dt. 6:5 and Lev. 19: 18; Mt. 22:37-39). According to the scholastics, these are not "counsels of perfection," intended only for believing Christians or Jews, but the rule of reason that naturally binds the conscience of everyone, everywhere, always—which, for emphasis, received the added sanction of Hebrew and Christian revelation. No commandment, "You shall love yourself," is necessary, explained Augustine, because everyone naturally loves himself. The whole problem is to love ourselves "ordinately"; that is, while observing the proper ranking of persons as ends and of instrumental goods as means.

Augustine, and Aquinas following him, placed the fact of scarcity squarely at the center of moral decision-making at both the personal and political level. Since love properly means willing some good to some person, said Augustine, what it means to "love your neighbor as yourself" depends critically on whether the good in question is "diminished by being shared with others"—that is, scarce. Thomas Aquinas accordingly distinguished two ways in which we can love our fellow man: *benevolence,* or "good will" toward others involving abundant goods (like air at sea-level, or God's love), which can be extended to everyone in the world; and *beneficence,* or "doing good" to others with scarce means, which cannot. We can always avoid harming others, which is why there are no exceptions to the prohibitions against murder, theft, adultery, and so on. But the share of one's scarce goods that can be distributed to others is practically limited, because no one, however rich, can share equally with everyone and still leave himself enough to live on. If you doubt this, try a thought experiment: divide your income or wealth by 6.3 billion. That's *your* share if you love everyone in the world, including yourself, *equally*. This means that, when scarce goods are involved, loving your neighbor "as yourself" cannot always mean loving your neighbor *equally* with yourself. "Since you cannot do good to all," wrote Augustine, "you are to pay special regard to those who, by the accidents of time, or place, or circumstance, are brought into closer connection with you" (*On Christian Doctrine*, I, 28). To illustrate: The Good Samaritan is the classic case of "loving your neighbor as yourself" (Luke 10:29-37). He loved the man he found beaten by robbers *as* himself by regarding him *as a person* like himself, that is, by not leaving him to die like an animal; but he did not love him *equally with* *himself,* by dividing his property equally with him. The economic value of the Samaritan's time and the two coins he gave to care for the stranger probably amounted to half his wages for the week—not for the year or his whole life; perhaps 1% of his annual income. This was a generous, but a human—not a superhuman—act, and everyone should be prepared for such a "doable" sacrifice to prevent the death or extreme misery of a fellow human.

The same moral imperative applies to decisions at the political level. But the limits imposed by the fact of scarcity also apply: the approximate equality of wealth and income that can actually be practiced in a group the size of a household cannot be extended to a whole nation or the world. A political commonwealth obviously does require some "common wealth" to promote the common good (weapons of national defense, public parks, and a legal system are obvious examples). But the fact of scarcity requires that most property be privately owned, because in administering scarce goods, private ownership usually has the three advantages of greater productivity, order (specialized knowledge), and social peace. However, the *ownership* of wealth does not necessarily coincide with its *use*: that is the whole point of making decisions about its *final distribution*.

**The Development of Economic Theory: Scholastic, Classical, Neoclassical.** Thomas Aquinas, then, joined Aristotle's and Augustine's separate tools of analysis into a kind of analytical 'Swiss Army knife,' containing the combination of tools necessary to explain any economic event. Economists have used it ever since. The detail and sophistication of each of the tools has advanced considerably since the 13$^{th}$ century, especially since the invention of mathematical calculus in the 17$^{th}$ century. But the reason we have a mathematical theory of economics today is that Aristotle and Augustine both recognized from the beginning that the objective aspect of justice and of loving your neighbor with finite goods can be described in mathematical terms. In fact, the system I have described in words can also be stated as a set of economic equations, which an economist might call the "utility function," the "production function," the "distribution function," and the "equilibrium conditions."

The development (and, therefore, the history) of economic theory has two aspects, one analytical and one sociological. Tracing the development of each element—for example, the theory of *utility*, or the theory of *production*, or the theory of *equilibrium*—and its application (say, to the theories of money, international trade and prices) can be fascinating. But in doing so, it is easy for both economist and non-economist to lose the forest for the trees.

The usual way to examine it is in the context of a "Whig history," which takes as its point of reference one or more of the elements considered important by a modern school, and considers how these elements have been understood and applied by a succession of economic thinkers, or to explain a succession of economic conditions. This approach is more sociological. While such an approach has its uses, it is also necessarily complicated: in the end, it becomes a dictionary of biography of economic thinkers, a long list of "begats": Adam Smith begat David Ricardo, David Ricardo begat John Stuart Mill, and so on. The overall *structure* of economic theory, as perceived by economists, tends be overlooked in the process.

The way in which I propose to look at the history of economic theory is much simpler. It is to inquire how the *outline* of economic theory has been understood and treated by economic thinkers in each period or schools of economics over time. Do the economists of a given period or school actually use all the logically necessary elements? Or do they leave some out? And if so, why?

From this perspective, the whole history of economic theory so far is naturally divided into just three periods: the Scholastic (c. 1250-1776), the Classical (1776-1870), and the Neo-classical (1870 to the present).

To gauge the net result of the whole development so far, let's begin with the scholastic structure already described and make a standing broad jump across the whole 750 years of development to the present. What do we find? We find that nearly all modern economists are still using Thomas' Aquinas' "Swiss Army knife"—but most of them seem to be under the impression that it contains only three (in a few cases, only two[13]) tools instead of four. Most modern economists are trained to use mathematical forms of three elements—*utility*, *production* and *equilibrium*—but not what I have called *final distribution*. This is odd, since as we have seen, both Aristotle and Augustine gave its mathematical formula. How did this "hole" in theory come about? In brief, Adam Smith tried to oversimplify economic theory by discarding two of the basic elements (*utility* and *final distribution*), and was followed in this by most "classical" economists. Their "neo-classical" successors restored one of the elements dropped by Smith (*utility*), but not the other (*final distribution*).

**Divine economy.** I believe there is a certain philosophical logic to this progression. When the Apostle Paul preached the Christian Gospel in the *agora* or marketplace in Athens around 51 A.D., he couched his apologetics in a Biblically orthodox version of the natural law, which he adapted from Greek philosophy. We are told that "some Epicurean and Stoic philosophers argued with him."[14] These three philosophical alternatives—Biblically orthodox natural law, Stoicism and Epicureanism—are expressed by the structures of Scholastic, Classical and Neoclassical economic theory, respectively.

The scholastic outline was (and remains) a good economic definition of "personalism," because it contains all essential facets of action by a human person: the choice of persons as ends (*final distribution*), the choice of things as scarce means (*utility*), the realization of the means (*production*), and *just exchange* of the means, which is natural among "social and political animals."

It's important to note that Thomas Aquinas represented the beginning, not the culmination, of scholastic economics (if, indeed, it has culminated). Moreover, the development of Scholastic economic theory occurred through a clash of schools, not within a single tradition. In economics, the term "scholastic" has a

[13] The small remnant of "Austrian" economists refuses to recognize *equilibrium*, and rejects mathematical analysis (which would show its theories to be logically incomplete) as well as empirical techniques (thus making its theories unverifiable).

[14] *Acts* 17:18. The arguments in the marketplace seem to have led to the invitation that occasioned Paul's famous address to the Areopagus.

much broader connotation than in theology. Despite their many differences, Catholics, Orthodox and Protestant Christians can largely agree on those doctrines settled before the Protestant Reformation (such as the complete humanity and divinity of Christ). And historian Odd Langholm has shown that, notwithstanding their sharp theological differences on other matters, there is no substantive difference on economic theory between Catholics and Protestants after the Reformation. For example, the economic analysis of the 16th-century Protestant Reformer Philip Melanchthon continued a tradition inherited from Aquinas by way of Nicolas Oresme and Henry of Friemar, and Melanchthon's Protestant followers carried unchanged into the following century. Likewise, historian of economics Henry William Spiegel has traced scholastic economic ideas to pre-Revolutionary Protestant America; finding, for example, that Puritan clergyman John Cotton's rules of business behavior were "similar to those laid down by the medieval schoolmen."

The philosophy embedded in Adam Smith's economic theory represents a reversion to Stoic pantheism. Had Smith been content to advance the theory of *production* (as he did), his influence on economic theory would be unambiguously positive, if a bit one-sided. Because he had larger ambitions, his influence is decidedly mixed. There are two keys to understanding Adam Smith, as both a philosopher and an economist. The first is that it was Smith's ambition to do for moral philosophy what he believed Isaac Newton had done for natural science: to reduce all its phenomena to a single familiar principle, like gravity. The second is that, having rejected his Christian baptism long before writing the *Wealth of Nations*, Smith viewed himself essentially as a Stoic philosopher—and Stoics are pantheists. Smith's letters and other writings clearly indicate that by the time he wrote the *Wealth of Nations*, he was not a Christian.[15] In a letter dated August 14, 1776, Smith writes: "Poor David Hume is dying very fast, but with great chearfulness and good humour and with more real resignation to the necessary course of things, than any Whining Christian ever dyed with pretended resignation to the Will of God."[16]

Smith greatly amplified the Stoic message in the *Theory of Moral Sentiments* in the 6th and final edition, which was published *after* the *Wealth of Nations*. "A wise man never complains of the destiny of Providence," says Smith, "He does not look upon himself as a whole, separated and detached from every other part of nature, to be taken care of by itself and for itself. He regards himself in the light in which he imagines the great genius of human nature, and of the world, regards him. He enters, if I may say so, into the sentiments of that divine Being, and considers himself as an atom, a particle, of an immense and infinite system, which must and ought to be disposed of, according to the conveniency of the whole."[17]

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[15] Adam Smith, *The Theory of Moral Sentiments*, edited by D.D. Raphael and A.L. Macfie, Oxford University Press, 1976 [1759], Appendix II; Ian Simpson Ross, *The Life of Adam Smith*, Clarendon Press, Oxford, 1995, 118, 401.
[16] Smith (1976), 19.
[17] Smith (1976), 276;*TMS*, VII.ii.1.20.

Smith's metaphor of the "invisible hand," used in both *TMS* and *WN,* is therefore apt, because in the Stoic view, humans are appendages of the universe: in effect, God's puppets. And God *is* the universe. In Smith's economic theory, this is expressed by dropping the theories of *final distribution* (man's choice of persons as ends) and of *utility* (man's choice of scarce means). Just as the quotation from Smith suggests, this reduces humans to the level of Newtonian "atoms," which do not act, but are only acted upon.

The Neo-classical period in economics represents an attempt to restore the Epicurean theory of man and God (or rather, of man and chance). It was inaugurated (in England at least) by philosophical disciples of Jeremy Bentham. The Epicurean view of man embedded in Neo-classical economics is a step up from the Stoicism embedded by Smith in classical economics, in the sense that, by restoring the theory of *utility* (the choice of means), it raises humans from the level of atoms to that of animals. But the omission of *final distribution* indicates that in this view, man is not a *rational* animal, merely an uncommonly *clever* animal. That is, man is presumed to have the free choice of means, but not the free choice of ends (which are supposed to be already determined by each animal's nature).

Logically speaking, I believe the next period in economics ought to be "neo-scholastic"—that is, a return to an authentic personalism, by restoring the theory of *final distribution*: the recognition that the end of every act by a person is a person or persons. But such a restoration must take advantage of the great advances in technique of each element, particularly the variability of both human and nonhuman economic resources and a theory of *general* rather than *partial equilibrium*. And for such an advance to happen, I believe that the requirement must be restored that Ph.D. candidates master the history of economic theory. The fruitful link would be restored between the advancement of economic theory and the study of its own history. This does not mean that economics would be taught as I have described it. But the more facts of history which an economist is forced to take into account, the harder it is to concoct an ideological, fictitious "Whig history" that ignores them.

**Pantheism.** Then what do we do with what might be called the "prehistory" of economics, the time between Aristotle and Thomas Aquinas? Schumpeter leaves us with a puzzle as to who, if anyone, deserves the title of "Founder" of economics; in fact, he seems to say that economics began at least twice: with Aristotle, and then with the scholastics. Here the sociological facts are important. Starting with Thomas Aquinas, historians are able to trace the transmission of economic theories from teacher to student, and from one "school" to another. But no earlier tradition of a purely "Aristotelian" economics has been found, even though the Greek Academy continued to operate until 539 A.D. (a year which Gilson finds symbolic because the monastery of Monte Cassino was founded the same year: Greek philosophy is subsumed, handed on, and enriched by the Schoolmen). In other words, there do not appear to have been any Aristotelian "economists" after Aristotle. Aristotle's ideas are seldom repeated, and not at all developed, until Aquinas integrates them with Augustine's. Why?

Stanley Jaki, a historian of science, and Etienne Gilson, a historian of philosophy, have both argued that the idea of creation was necessary for the successful emergence and development of exact sciences. According to Jaki, "There can be no more fundamental difference than the one between a world which is in no need of being created and a world that owes its existence to the Creator. That difference lies at the root of the invariable stillbirths of science in all the ancient cultures."[18] Common to all ancient philosophies, he argues, was an essentially pantheistic view of the universe; and this pantheism prevented any order in the universe from being complete. Because God was not considered to transcend sensible reality, He always, so to speak, got in the way when it came to explaining sensible reality. For example, to make his theory of physics work, Aristotle had to suppose that there are two different kinds of matter: a special, immutable kind for the celestial bodies (which Aristotle thought were animated by eternal intelligences attracted to God, the Unmoved Mover); and another "ordinary" kind of matter for sublunary bodies. A single theory that explained astronomy, mechanics, and the basic elements was therefore impossible.

I suggest that something similar happened to economics, and for the same reason. Economics was born with Aristotle; but it was stillborn. As we have seen, Aristotle had provided the theory of *production* and the theory of *equilibrium*. But he assumed rather than stated the theory of *utility*. And his theory of *final distribution* is limited to (mostly political) distribution of *common* goods. Aristotle had discussed friendship as a "sharing," and had even suggested that the practical possibility of sharing among friends is limited by the fact of scarcity.[19] But he never was able to state the principle of *personal* distribution, by which we decide how much of our scarce goods to allocate to ourselves and how much to others. Thomas Aquinas saw that Aristotle's philosophy was incomplete, and supplemented it with Augustine's. Aquinas replaced Aristotle's sketchy preliminary remarks on economic value with Augustine's theory of *utility;* and he completed Aristotle's theory of *social and political distribution* with Augustine's theory of *personal distribution*.

Two concepts are missing from Aristotle's description of reality: "creation" and "person." Both Aristotle's virtuous man and his God are largely self-contained: they do not interact. Aristotle's theory of rational action cannot be applied to both man and God. Aristotle's God is Self-thinking Thought. He is the First Mover, but not the Creator of everything else; he forms, but does not create, prime matter. He therefore does not know things (including humans) outside himself as individual beings, but only collectively, according to their species. From the human side, Aristotle says that, since friendship involves a kind of equality, "when one party is removed to a great distance, as God is, the possibility of friendship ceases."[20]

The belief that God had become a particular man could not help but affect purely "secular" philosophy in its views of both God and man. Christians believe that Christ was sent not only to reveal God to man, but also to reveal man to

[18] Stanley L. Jaki, *Bible and Science*, Christendom Press, Front Royal, VA, 1996, 107.
[19] *Nicomachean Ethics* VIII, 6; IX, 10.
[20] *Nicomachean Ethics* VIII, 7.

himself. For Jews and Christians, God created everything that exists out of nothing. In itself, this is a philosophical rather than a religious idea, but the idea did not exist in Greek or Roman philosophy. Likewise, among the premises of Augustine's theory are that God knows and loves each human person individually, and that human persons are also motivated by love of persons, including themselves, each other and God. Thus a single theory of action could embrace God and man—and make economics practically possible.

Chesterton is often misquoted as having said, "The first effect of not believing in God is to believe in anything." (Despite considerable effort, Chesterton scholars have been unable to find it in his writings.) But I will state it as an empirical generalization that the most frequent alternative to believing in the God of Abraham, Isaac and Jacob is not to believe in nothing, to believe in Everything. That is, the main alternative to Biblically orthodox faith is not atheism but pantheism. We are so steeped in pantheism that we do not recognize it when we hear it (for example, the Star Wars movies: "Use the Force, Luke!").

Speaking from personal experience, this is a problem especially for economists. The order in markets is not a theory: it's a fact. The question is where the order comes from. Augustine says that the order comes from the conscious choices of humans. But ultimately, in his view, "This image or, as I said, trace of equity is stamped on the business transactions of men by the Supreme Equity."[21] Yet for many if not most economists of my generation, who have been taught by (and become) "economists as preachers," the Argument from Design does not point to a Creator. In retrospect, when I thought I had returned to Christianity, I had only converted from atheism to pantheism, and it took a long further adjustment to be converted from pantheism to Christianity. What was it, I finally began to wonder, that unites Marxists, libertarians, and some of my fellow "supply-siders"—who can't agree on anything else—in their exaggerated admiration for Adam Smith? It's the mating call of pantheism, I concluded. The only thing they disagree about is whether the proletariat, the stock market, or the "global electorate" best expresses the mind of God. Thus we are dealing with a genuine, but misguided religious impulse.

**The meaning of America.** I believe this has significance for the meaning of the American experiment. By far the most influential piece of Chicago-School "Smythology" was Milton Friedman's argument in *Free to Choose* (1980), in which he not only insisted on Smith's analytical originality, but also linked Adam Smith's philosophy with the meaning of the American Declaration of Independence:

> The story of the United States is the story of an economic miracle and a political miracle that was made possible by the translation into practice of two sets of ideas—both, by a curious coincidence published in the same year, 1776.

[21] *Questions for Simplicianus*, I.II.16; translation by Herbert A. Deane, *The Political and Social Ideas of St. Augustine*, Columbia University Press, 1963, 97.

> One set of ideas was embodied in the *Wealth of Nations*, the masterpiece that established the Scotsman Adam Smith as the father of modern economics. . . .
>
> The second set of ideas was embodied in the Declaration of Independence, drafted by Thomas Jefferson to express the general sense of his fellow countrymen. It proclaimed a new nation, the first in history established on the principle that every person is entitled to pursue his own values: 'We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights; that among these are Life, Liberty, and the pursuit of Happiness.'

According to Friedman, "the fundamental principles of our system [are] both the economic principles of Adam Smith. . .  and the political principles expressed by Thomas Jefferson."[22]

This notion cannot survive a reading of Adam Smith. The idea that "all men are by nature equal" is an old one. We find it in exactly, or almost exactly, those words in Plato,[23] Zeno of Citium[24] (the founder of Stoicism), Thomas Hobbes,[25] Algernon Sidney,[26] and John Locke.[27] But to say that "all men are *created* equal" is a much more specific, and one might say, inspired formulation. Creation *ex nihilo* is simply not to be found in Adam Smith's writings. Smith's Providence is the great "Superintendant" or "Conductor" or "Genius" of the universe, but not its Creator.

On such a matter of fact, we are not "free to choose." We can have *either* Adam Smith's Stoic "invisible hand," manipulating humans as God's puppets, *or* "all men . . . created equal," as it says in the Declaration of Independence—but not both. All men cannot be *created equal*—or free to choose the persons for whom their economic actions are intended—unless all men are *created*.

[22] Milton & Rose Friedman, *Free to Choose: A Personal Statement*, Harcourt Brace Jovanovich, 1980, 1-2, 7.

[23] "All men are by nature equal, made all of the same earth by one Workman; and however we deceive ourselves, as dear unto God is the poor peasant as the mighty prince."

[24] "All men are by nature equal, and virtue alone establishes a difference between them."

[25] "Men by nature equal." *Leviathan* Chapter 13.

[26] "All are equal, and equals have no right over each other." Algernon Sidney, *Discourses Concerning Government*, Revised edition, foreword and ed. by Thomas G. West (Indianapolis: Liberty Fund, 1996) 3:33:511.

[27] "All men are by nature equal . . . in that equal right that every man hath to his natural freedom, without being subject to the will or the authority of any other man; . . . being equal . . . no one ought to harm another in his life, health, liberty or possessions." John Locke, *Second Treatise on Government* (1698) Chap. 2, Sec. 6.

# The Origins and Historical Structure of Economic Theory

| *Element of Economic Theory* | **Utility** (type) | **Production** (factors routinely assumed to vary) | **Final Distribution** (social unit described) | **Equilibrium** (type) |
|---|---|---|---|---|
| **Common-sense meaning** | *Choice of scarce means* | *Realization of scarce means* | *Choice of persons as ends* | *Justice in exchange* |
| **Source** | Augustine,<br>*City of God* XI, 16<br>(ordinal) | Aristotle,<br>*Politics* 1, 4<br>(none) | Augustine, *On Christian Doctrine* I, 26 (person);<br>Aristotle, *Ethics* V, 3 (political & domestic) | Aristotle,<br>*Ethics* V, 5<br>(partial) |
| **Period**<br>*Scholastic*<br>(c.1250-1776)<br>{Natural law} | Yes (ordinal) | Yes (none) | Yes (all) | Yes (partial) |
| *Classical*<br>(1776-1870)<br>{Stoicism} | No | Yes (tangible human) | No | Fragmentary (partial) |
| *Neoclassical*<br>(1870-c.2000)<br>School<br>*Cambridge*<br><br>*Austrian*<br>*Walrasian*<br>*Chicago*<br>(1957-)<br><br>{Epicureanism} | Yes<br><br><br>“ (cardinal)<br><br>“ (ordinal)<br>“ (ordinal)<br>“ (cardinal) | Yes<br><br><br>“ (tangible nonhuman)<br>“ (“)<br>“ (“)<br>“(all: tangible & intangible human & nonhuman) | No<br><br><br>“<br><br>“<br>“<br>“ | Mixed:<br><br><br>Yes (partial)<br><br>No<br>Yes (general)<br>Yes (partial) |
| “*Neoscholastic*”<br>(c.2000?- )<br>{Natural law} | Yes (ordinal) | Yes (all) | Yes (all) | Yes (general) |
| **Economic equation** (simplest form, for one person; social units are aggregated) | $U_i = f(C_{Ki,Li})$, where $U_i$ is the ranking by person *i* (“utility”) of $C_{Ki,Li}$: the use by *i* (“consumption”) of the services of human and nonhuman capital. Ordinarily, $\delta U/\delta C<0$ (“declining marginal utility”). | $\delta K_i = f_1(K_i,L_i)$, $\delta L_i = f_2(K_i,L_i)$, where $K_i$ is the stock of nonhuman capital, and $L_i$ the stock of human capital, owned by person *i*. | $C_{Ki,Li}D_{ii}/\Sigma D_{ij} = Y_i - T_i$, where $D_{ii}$ is the significance of *i* to himself, $\Sigma D_{ij}$ the significance to *i* of all persons including himself, and $T_i$ is net personal (gifts), domestic and political transfers by (from) *i*. | $P_K\delta K_i+P_L\delta L_i = rK_i + wL_i \equiv Y_i$, where $P_K$ and $P_L$ are the unit prices of K and L, respectively, *w* labor compensation per unit of L, *r* property compensation per unit of K, and $Y_i$ is (defined as) total compensation of person *i*. |

Adapted from John D. Mueller, “The End of Economics, or, is Utilitarianism Finished?” James Madison Program, Princeton University, 15 April 2002.