The Indeterminate Goodness of the Economy (and Life)

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If economic reasoning and analysis is to serve as a useful guide to individuals and society, some consideration of what constitutes a good life and good economy would seem essential. It's when "you don't know where you are going, any road will take you there", as the Cheshire cat told Alice. Moreover the elements of what we want in a good economy must be, to some degree, coherent. Otherwise, like Stephen Leacock's Lord Ronald, we risk flinging ourselves on our horses and dashing madly off in all directions.

But how -- and how fully -- should we specify the features of a good economy?

The challenges brings to mind a problem (discussed in Vincenti's marvelous book) that dates back to the early days of aviation – that of establishing flying quality specifications for aircraft. Specifying performance specifications was straightforward: you could say that an airplane should be capable of cruising at 175 miles per hour, at 1800 horsepower, at 10,000 feet. The specification could be incorporated into design choices and "performance guarantees" offered by aircraft manufacturers.

Flying qualities -- the characteristics that govern the ease and precision with which a pilot is able to control an aircraft -- were however vexing.

Figuring out how much inherent stability[1] an aircraft should have was one challenge. High stability made planes hard to maneuver: a craft that wouldn't easily be knocked off its path by a gust of wind would also resist a pilot's efforts to change its trajectory. The so-called "chauffeur" school favored highly stable craft – winged automobiles that merely required some steering. The so-called "airmen", starting with the Wright brothers, favored maneuverability, relying on pilots, to deal with wind gusts.

Unlike performance characteristics, characteristics such as stability and maneuverability were hard to specify in advance. Rather, they were subjectively assessed by test pilots after the craft had been built. Thus a pilot would report that "elevators, ailerons and rudder respond very readily" and that the "longitudinal, lateral and directional stability… is good." As Vincenti observes, such subjective, qualitative and after-the-fact, remarks weren't of much use to a designer. Designers needed precise numerical targets, that if hit, could be expected to please pilots.

It took several decades to map the subjective ex-post assessments of pilots into quantifiable, ex-ante specifications of flying qualities. The effort involved several functionally different professional communities (such as engineering researchers, instrument developers, test pilots and aircraft designers) that communicated with and depended on each other.

It's tempting to propose a similar effort to define a set of goals to guide and evaluate economic policies. I'm skeptical however that the flying qualities example is a good model. I will make the case for a more minimalist, case-by-case, approach.

The problem of work

The place of work in the good life has long been ambiguous. For Aristotle, contemplation was the greatest good. And if you were pondering the meaning of life (or your navel) you couldn't be working, at least in any ordinary sense of the word. On the other side, many religions have deified work. So have godless workers paradises.

John Maynard Keynes predicted in 1930 that technological progress would solve man's "economic problem", namely the "struggle for subsistence." Instead, in a hundred years, man would be "faced with his real, his permanent problem" of how to "occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well." Old habits would still impel people to seek out "small duties and tasks" but most would be content with a fifteen hour week.[2]

Keynes's essay more than predicted – it celebrated mankind's impending liberation from toil as an escape from "the tunnel of economic necessity into daylight." The accumulation of wealth would no longer have "high social importance" and we would be able to rid ourselves of the "pseudo-moral principles" which have "exalted some of the most distasteful of human qualities into the position of the highest virtues.

In fact, the workweek stopped declining in most industrialized nations about 30 years ago and in the United States actually began to increase. Most Americans now work longer hours now than did their grandparents, observes Karl Widerquist.[3]

Standard economic theory implicitly endorses the Keynesian view, treating work as disutility, a cost that individuals will incur only to the extent that it is more than offset by the income (and thus purchasing power it generates). And even that is not enough for some. In 2008 President Sarkozy established the

Commission on the Measurement of Economic Performance and Social Progress. In a conference to mark the release of the commission's report, President Sarkozy complained that GNP measures didn't credit France for the long summer holidays its people enjoy.

Ned Phelps has argued for a sharply different conception of the good life and economy. "A good economy promotes lives of vitality," observes Phelps. "An economy cannot be good that does not produce the stimulation, challenge, engagement, mastery, discovery and development that constitute the good life." Esa Saarinen's paper offers full throated support, arguing for an economy that promotes "elevation and uplift", enabling, inter alia self-realization, self-actualization, vibrancy, and personal development.[*]

The competing conceptions of the good life remind me of the story of the Wall Street banker on holidaying on a Mexican beach where he encounters a local fisherman. The fisherman has caught a few fish quickly and is ready to call it a day.

"What are you going to do now?" asks the banker.

"Go home. Take a siesta, Hang out with friends in the evening."

"Why don't you catch some more fish instead?"

"Why?"

"You'd be able to buy better gear"

"Why?"

"So you could catch more fish so you could buy a boat"

"What would I do then?"

"Sell more fish, invest the money"

"Why would I do that?"

"So you could retire, fish a little, take afternoon naps and hang out with friends in the evening."

As this story illustrates, there is no logical reason for why we work more or less. Richard Robb's paper presented earlier would suggest that the Wall Streeter's long hours and fierce drive don't really derive from a desire to maximize lifetime consumption.

The clichés of the compulsive New York banker and laid-back Mexican fisherman aren't empty. As the late great Robert Merton (*père* not *fils*) pointed out a long time ago, we internalize the values and seek the approval of our reference group. The banker seeks the esteem of other bankers, the fisherman of fellow fishermen. But although reference group or parental pressures are influential they are not determining. Some bankers repair to Maine to open bed and breakfasts. Millions of Mexicans endure unimaginable hardship to improve their material lot this side of the Rio Grande.

Like the banker, we also often seek affirmation of our inclinations and world view by trying to persuade others who are not so inclined. Proselytizing often is undertaken to gratify the missionary as much as the convert. (Motivational speakers are twice blessed since they also receive pecuniary reward.)

I am personally much more attuned to Phelps's conception of a good life than to Keynes's. I believe this orientation is also somehow linked by a libertarian propensity to think of the individual as the end and the collective as the means (although I fully appreciate the value of collective action in enabling individuals attain the goals pursue and recognize empathy is a common human trait)

That said, I am skeptical about turning what I consider a good life for me into a specification for all of society.

To start with, its puzzling to me how someone who is not so inclined can be made to self-realize, self-actualize or self-whatever. To what degree is self-realization, real if it doesn't come from within, if it's the result of persuasion or inducement?

Workaholics like me can't always resist making unwarranted value judgments about individuals who seem more slothful than striving. But as someone who also holds individual liberties dear, I would find it as distasteful for society to require that every one strive and create as if it would be if we were all compelled to take long holidays. (The last time I took more than a week off was in 1987, I think). Inclusiveness ought to include an acceptance of a wide range of conceptions of a good life.

The problem of specifying flying qualities that I discussed earlier did not require the reconciliation of basic differences in values. Everyone involved – pilots and non-pilots -- acknowledged that pilots were the final arbiters of flying quality. And hypotheses about how numerical specifications would map into what the typical pilot would regard as good qualities, could be and were, empirically tested.

I am not suggesting that individual conceptions of a good life are fixed at birth. Even values that we consider basic do evolve with our life experiences and the exemplary individuals – or villains – we encounter. Our goals adapt to changing opportunities and constraints. The dramatic increase in possibilities for economic advancement in my native land, have eroded a once widespread disdain for wealth.

Amartya Sen commends public reasoning that changes people's views and priorities and the enlightenment enterprise of advancing rational decision making in society which lies at the foundation of democratic modernity. Government by discussion certainly is appealing, but reason and objective evidence seem better suited to choosing between means than in selecting ends or altering people's values. Arguments intended to change views about ends may be couched in the language of logic but ultimately their effectiveness turns on their emotional resonance, not their axiomatic logic or empirical evidence. And it is hard to believe that differences in basic values can be removed through competing emotional appeals. Rhetoric may change hearts and minds but some this way and others that.

Yet collective action is unavoidable, and in technologically progressive society we cannot settle the social contract once and for all. New techniques and goods constantly throw up the need for new rules. And questions what society should require its members should do inevitably requires determination about ends not just means.

My libertarian preference for avoiding those constraints on individual choice for which broad approval cannot be secured then lead me to favor a modest and evolutionary program. I'd argue for focusing on the lowest common denominator in our collective choice of ends, as it were rather, than that highest common factor. In terms of Maslow's hierarchy of needs I'd want to focus on the ones at the bottom – the needs for safety and self-acutalization and safety, rather than the higher needs for self actualization and self-transcendence. As Maslow pointed out, not everyone is highly meta-motivated (i.e. strives for constant self-betterment because of a strong drive for the higher "being" needs.) What makes Phelps and Pavorotti – the heroes Saarinen's paper – tick is, I suspect, the exception rather than the rule, and thus in my view, unsuitable for incorporation into our collective conception of a good life.

My minimalist approach would also be incremental: address the question of common goals mainly when concrete questions and disputes (over for instance internet privacy, or genetically modified organisms) arise. If it's not necessary for society to choose, as Chief Justice Roberts might say, it's necessary to not choose. This pragmatic, common law style conception of a good life involves the decentralized, accretion of many small choices rather than some grand design of a constituent assembly. Before the 1930s, the accretive process resulted in an economy which increased leisure, now it demands more work, but these are largely by-products, and not the result of a conscious choice.

I'm likewise skeptical about getting economists to embrace any one conception of the good economy and life. The knowledge of any field, be it a natural science or the more utilitarian enterprise of engineering and medicine, is developed by and embedded in a community that shares a language, and adheres to similar standards and modes of reasoning. Even so, excessive homogeneity views and approaches retards progress. Mainstream economics has adopted, almost without thinking about it, the work-as-disutility view of ends. The alternative conceptions proposed by Phelps, Robb and Saarinen at this conference are an valuable antidote. Yet, it does not seem to be fruitful to infuse all of economics with the Saarinen potion of elevation if one values a diversity of values and approaches.

Broadening, but how?

Economics, Robert and Virginia Shiller's paper argues, has become an essentially technical field with narrowly specialized areas of inquiry. Although specialization has allowed for great progress in economic science, say the Shillers, the financial crisis shows the need for more interdisciplinary research.

The narrowing of economics in the last several decades seems indisputable; the claim that this has allowed for "great progress" raises a question, however: From whose point of view? Paul Samuelson once said – approvingly -- "in the long-run the economic scholar works for the only coin worth having--our own applause." By this self-referential standard, progress has been remarkable. As the ranks of economics are larger than ever, their output of scholarly publications is prodigious and loudness of their collective applause can be deafening. But looked at from the outside, it is unclear whether increased specialization has led to great progress in terms of the scientific enterprise of advancing – and testing – falsifiable hypotheses. True, many ingenious, logically consistent equilibrium models have been produced. But at least in the field that I'm familiar with – financial economics – the results are just not falsifiable. The models are nothing more than axiomatic "if, then" statements. And quite fanciful 'ifs', as often as not.

On the practical side, it is questionable if more specialization has produced contributions (with the right sign) comparable to those produced in medicine or engineering. Think of all the artifacts and therapies that wouldn't exist but for the engineering or medical research done over the last 30 years. Then ask yourself what difference it would make if no research in finance or economics had been done in the same period.

In 2006 Ben Bernanke declared "banking organizations of all sizes have made substantial strides over the past two decades in their ability to measure and manage risks"… "concepts such as duration, convexity, and option-adjusted spreads" provide better risk returns to stockholders and "greater resilience of the banking system." One can only wonder how banking system could have been any less resilient in

2008. One may also wonder why after all the research on monetary policy, no one seems to know whether and how quantitative easing and twisting make any difference.

Curiously, the economic approach to decision-making is deeply engrained in our lives as never before. We routinely analyze incentives, worry about unintended consequences, think about comparative advantage and try to ignore sunk costs. But these are classical, foundational ideas, not the product of the recent economics research. Perhaps the world is telling us something about the utility of the high tech way. Moreover, the classical ideas are applied not by professional economists but by people with diverse backgrounds who have somehow picked up the economic way of thinking, but not to the exclusion of other modes. Sensible executives and salespeople think about incentives and also, explicitly or implicitly, about group norms, confirmation biases and social proofs. The world is already rather quite interdisciplinary. Multi-disciplinary approaches are common in many fields of research as well – in the study of organizations, business history, innovation, and entrepreneurship, for instance. Again, many of the researchers aren't technical economists but their work uses basic economic ideas in conjunction with those drawn from other fields.

There certainly is a serious problem in some areas that have been dominated by narrowly technical economists: finance and monetary policy seem prime candidates. But the problem is worse than one of economists ignoring other disciplines; it lies as much in the monopoly of a particular kind of economics that deifies equilibrium models and ignores the dynamism of the modern economy. Roman Frydman and Michael Goldberg's book and my book have argued that the intellectual foundations of the 2008 crisis lie in mechanistic models whose assumption of a stationary economy grossly – and dangerously – misrepresents the pervasive unruliness of a capitalist economy.

This unruliness, this dynamism, was central to Phelps's vision for the Center of Capitalism and Society and to the world view of many of its members. It also pervades the work of the likes of Josef Schumpeter, Frank Knight, Fredrich Hayek, John Maynard Keynes, Nate Rosenberg and our very own Richard Nelson and Sidney Winter. Unfortunately the scholars are celebrated but their ideas have been purged from the modern economic canon. Many of those who embrace Keynesian views about stimulating aggregate demand want to have nothing to do with Keyenesian ideas of uncertainty. And to me it's telling that behavioral economics, heralded as a bold new advance, isn't at its core any less mechanistic than the mainstream paradigm.

So yes, more dialogue between economists and philosophers and psychologists might be useful. But the first order of business ought to be to restore and build on the expunged ideas. No approach can ever establish its superiority through logic or empirical testing, but economics and society at large would be well served by a more pluralistic dialectic.[4]

ENDNOTES

[*] The analysis of human motivation in Richard Robb's recent papers hews to the spirit of Phelps's ideas but he does not seek to advance a view of the good economy. Rather, Robb's analysis points to the contradictions and other limitations of traditional economic analysis.

[1] Inherent stability refers to the propensity of an aircraft to naturally recover from, say, a gust of wind, without any intervention by the pilot.

[2] John Maynard Keynes "Economic Possibilities for our Grandchildren" (1930). Scanned from John Maynard Keynes, *Essays in Persuasion*, New York: W.W.Norton & Co., 1963, pp. 358-373.

[3] Karl Widerquist, *Dissent* Winter 2006. Downloaded from http://www.dissentmagazine.org/article/?article=168

[4] Martin Seligman asked whether the existing paradigm in economics should be "tweaked or toppled". My answer was, "Neither. It should be broadened."