Journal of Markets & Morality
Volume 15, Number 1 (Spring 2012): 179–200

Review Essay

Surveying Recent Literature on Economic Theory and Morality*

Matthew McCaffrey
PhD Candidate
University of Angers

Recently, economics, both as a science and as a profession, has fallen under scrutiny by authors from various fields. A universal theme in this literature is the idea that economics has lost its way and must be reformed. Each of the books addressed in this review studies perceived problems with economics: problems in economic theory, economic policy, and in the economics profession itself. This paper discusses the merits and possible failings of this literature. Because the three books overlap to some extent, the subject matter has been divided by economic categories rather than by author.

Conventional Economics and Economic Religion

Many of the ideas Joseph Pearce advances in his book *Small Is Still Beautiful: Economics as if Families Mattered* are becoming increasingly popular, and therefore warrant serious attention. Pearce's book is not intended as a systematic treatise on economic principles, or even a blueprint for such a system. It is a critical assessment of mainstream economic thinking and the values engendered by it,

* Joseph Pearce, *Small Is Still Beautiful: Economics as if Families Mattered*, Wilmington, DE: ISI Books, 2006 (350 pages); Robert Nelson, *The New Holy Wars: Economic Religion versus Environmental Religion in Contemporary America*, University Park, PA: Pennsylvania State University Press, 2010 (416 pages); John D. Mueller, *Redeeming Economics: Rediscovering the Missing Element*, Wilmington, DE: ISI Books, 2010 (400 pages).

as well as an attempt to correct the course of economic thinking in accordance with broadly Christian teachings. In Pearce's view, economics is not merely the Dismal, but also the Fallacious and Immoral Science. Pearce is guided principally by E. F. Schumacher's famous book *Small Is Beautiful: Economics as if People Mattered* and much of the material in *Small Is Still Beautiful* is either quoted from Schumacher or closely paraphrases him.

A central difficulty is that *Small Is Still Beautiful* exhibits an extreme lack of clarity, as we shall see. Pearce directs much wrath toward "conventional economics." The problem is that conventional economics is never really defined, or more accurately, it appears to be defined solely by the value judgments Pearce ascribes to it (discussed below).

Pearce begins his discussion of economics by challenging the ethos of the economics profession: "Economics, it seems, is almost attaining pseudo-religious status, with conformity essential and heresy shunned. It has become *icon*omics, before which every knee must bend … to amend a well-worn cliché, there are lies, damned lies, and conventional economics."[1] A glance at the attention paid to economists in the popular press combined with a look at textbook methods of economic modeling certainly supports the judgment that economics is attaining the status of a mystical discipline. It is no surprise then that Pearce's skepticism of economists leads him to some important conclusions. For example, he criticizes the modern emphasis on economic forecasting, pointing out failed attempts to model important economic changes. Pearce cites data from the 1990s to make this point, but the economic crises of the past few years have provided an even more brilliant illustration of the extreme difficulties of economic prediction. However, Pearce does not pursue a deeper examination of this problem, including the issues of method that it involves. In this example as in many others, Pearce's critique is fragmented and misses obvious inferences. For instance, Pearce rejects the epistemology of positivism[2] but never connects the rise of positivism in economics with the problems of forecasting, which are inextricably related to it.

An excellent foil to Pearce's work is Robert Nelson's *The New Holy Wars: Economic Religion versus Environmental Religion in Contemporary America*. This book takes much the same tack as Pearce's but with significantly more success. Nelson argues that economics, especially inasmuch as it mindlessly advocates economic growth, has become a secular religion. Nelson carefully documents the rise of "economic theology" in the nineteenth and twentieth centuries, exploring the links between Calvinism and the modern economics profession.

Nelson demonstrates convincingly that neoclassical economics has smuggled moral assumptions into its analysis. He points out that most economic models ignore the personal costs of human behavior and focus narrowly on variables such as monetary costs. Equilibrium models assume away troublesome human elements.[3] Why, Nelson asks, make such strong assumptions? He suggests that the economics profession has an implicitly theological motive that inspires this reasoning: economists have chosen to value only the long-run movements of the economy, and all economic policies are thus directed toward achieving a heaven on earth through economic growth. Such value judgments betray an underlying economic religion in which certain objectives (e.g., growth) are taken as articles of faith. Paul Samuelson in particular is singled out as the leading example of these religious value judgments and their entering into economics.

Another example of the limitations of Pearce's analysis is his treatment of John Maynard Keynes. Pearce aptly identifies Keynes as one of the most important progenitors of both the emphasis on consumption and deficit spending, as opposed to saving.[4] However, he passes up the opportunity for a thorough examination of the moral influence of Keynes' economic theories—analysis that would greatly benefit his study.[5] Nelson, for example, points to Keynes as a father of the economic obsession with growth. While Pearce is capable of insight into the problems of neoclassical economics, he fails to explore both economic theory and history. As we shall see, this problem occurs again and again.

Value, Price, and Exchange

The concepts of value and price—and the difference between them—play an integral role in Pearce's critique of economics. Pearce criticizes economics because "fundamentally, economics is myopic. It measures reality by its current market price. The intrinsic value of real things, their essential character which remains unchanged even when their price on the market fluctuates, is not an issue to the economist."[6] This, according to Pearce, is a serious problem for economists.

To begin, this passage betrays Pearce's unfamiliarity with the first principles of economics. Specifically, he has confused two very different meanings of the word *value*. *Value* in its economic sense is subjective; it exists only in the minds of human beings and is merely a preference for one thing over another—a relative estimate of worth.[7] *Moral* values, on the other hand, are those principles that we choose to govern our conduct. Because value in the economic sense is subjective, nothing has "intrinsic value," or in other words, things are only valued inasmuch as people desire them. This is an entirely different question from establishing the moral qualities of certain actions. Economic theory is concerned only that people *do* value things, not with what they *should* value. Obviously it is unfortunate that people choose to value immoral things, but this is a problem of moral philosophy, not of economic theory.

Pearce claims that the economist who is concerned with prices is "forced by his own preconceptions to keep a watchful eye on current market forces, [and thus] he is consigned permanently to the present, spurning both the past and the future."[8] One problem with this charge is its inconsistency. As has already been noted, Pearce argues elsewhere that economists are too devoted to economic forecasting, which by definition deals with the future. This appears to contradict this claim about obsession with the present. Second, and far more important, why is it that attention to prices implies anything about present-oriented behavior? Does not Pearce realize that the anticipated state of affairs (the expected future) also plays a necessary role in action?

Although he mentions many so-called problems with the price system, Pearce never defines what prices are, shows that they are immoral or undesirable, or suggests what we can use to replace them. We are left feeling as though economists have foisted the whole notion of prices on the unsuspecting and helpless rubes in society, but there is no serious analysis to buttress this insinuation. His treatment includes nothing about the socially beneficial aspects of prices, such as the intertemporal allocation of scarce resources, or any of the many other socially necessary functions the price system performs. Neither is there any discussion of the barter economy or the necessity of the emergence of money and money prices.

Much of the economics in *Small Is Still Beautiful* is taken practically verbatim from Schumacher, which often results in embarrassing errors. For instance, Pearce states that

> modern economics only makes a distinction from the point of view of the purchaser, such as the distinction between consumers' goods and producers' goods [why must this distinction be from the point of view of the purchaser?] … Major problems arise if no account is taken of whether goods are man-made or God-given, whether they are renewable or otherwise."[9]

Has Pearce overlooked the elementary distinction in economics between land and capital? If so, it is *exactly* the distinction he claims economics lacks between man-made and God-given resources. This distinction goes back at least as far as Jean-Baptiste Say and appears in practically every major treatise in economics, including undergraduate textbooks at the principles level. Likewise, the distinction between renewable and nonrenewable goods is reflected in prices. (If it were not, how could one explain, for example, why genuine Rembrandts enjoy a higher price than reproductions?)[10]

Pearce then makes the astounding claim that "the market is blind to such distinctions [between renewable and nonrenewable goods]. It puts a price tag on all goods, indiscriminately eliminating all value. Fifty dollars' worth of oil

… equals fifty dollars' worth of cotton … equals fifty dollars' worth of clothes … equals fifty dollars' worth of hotel accommodation." In what possible sense are these things equal? The value of the units of money to consumers is certainly not equal (in fact, their value is not even strictly measurable). The goods are not the same from the economic perspective because each individual might value them differently; desire them for different ends, or not at all. To claim some sort of equality based on price is simply nonsense. In addition, how can Pearce claim that prices are assigned indiscriminately? Does he imagine that prices are arbitrary and do not reflect the preferences of exchanging individuals? Precisely the opposite is the case: Prices represent the discriminations (the preferences) of individuals' exchanging with each other.

Like Pearce, John Mueller is critical of the economics profession, but his diagnosis of the fundamental problems is quite different. In *Redeeming Economics: Rediscovering the Missing Element*, Mueller argues that economics suffers, not from erroneous value judgments but from the neglect of what he refers to as the "missing element" in economic theory. This element is what he calls "final distribution." It was supposedly present in Scholastic political economy but has been abandoned since the time of Adam Smith. Smith's labor theory of value (and in fact, classical economics in general) represents for Mueller a negative contribution to economics, a turn away from the Scholastic teachings that anticipated the marginal revolution. Neoclassical economics has improved the classical schema, but still leaves something to be desired: it lacks a theory of distribution.

Mueller claims that a theory of distribution is vital but lacking "at every level"[11] of economic theory. Following Augustine, Mueller argues that the end of all action is a person, whether the actor himself or another individual. Neoclassical economics—which treats individuals as personal utility seekers—cannot therefore explain many essential facts of economic life, such as gifts. Distribution, which explains the ultimate allocation of resources (gifts and exchanges, and the personal value involved) must be incorporated along with standard utility analysis.

Unfortunately for Mueller, his notion of distribution is not defensible. At the individual level, his argument rests on the assertion that there are separate *functions* for utility and distribution (chapter 2 and throughout). However, distribution is not distinct from utility and value; that is, it is not distinct from marginal analysis. Preferences (values) are only revealed through action, that is, through the pursuit of an end. Goods and services are valued only with reference to satisfying human desires because one cannot value independently of an end. The calculations of the housewife—Mueller's favorite example[12]—are made *with regard to ends*, and are not part of some other process called distribution that is performed separately from valuation. The success of the marginal revolution is based on the fact that it recognized the existence of units of goods destined to satisfy particular ends. Marginal analysis in fact presupposes not just a unit of a good but an end to which that unit is to be devoted.[13]

Above the level of the domestic economy, the notion of distribution is still highly suspect. Consider the following explanation from Murray Rothbard:

> "Distribution" theory is simply production theory. The receivers of income earn wages, rent, interest, and increases in capital values; and these earnings are the prices of productive factors. The theory of the market determines the prices and incomes accruing to productive factors, thereby also determining the "functional distribution" of the factors. "Personal distribution"—how much money each *person* receives from the productive system—is determined, in turn, by the functions that he or his property performs in that system. There is no separation between production and distribution, and it is completely erroneous for writers to treat the productive system as if producers dump their product onto some stockpile, to be later "distributed" in some way to the people in the society. "Distribution" is only the other side of the coin of production on the market.[14]

Rothbard is discussing a large-scale economy, but one can see how the idea also applies to the domestic economy. Parents, for example, do not arbitrarily purchase or produce goods independent of the ends they have. Rather, goods are produced at every level of the economy to satisfy particular ends, whether they be feeding a family or exchanging one's goods for money.

Another important argument Mueller makes is that economics is largely about the expression of love (through gifts) and hate (through crimes). Love is demonstrated by "the decision to give goods of a certain value to a certain person in proportion to the other person's relative significance to the giver."[15] The relation of love to economics may prove to be an interesting area of study. Love, however, is a psychological state, whereas economics is concerned with *action*. Purposeful behavior may certainly demonstrate love, but it is not necessary that it does, unless we take preference to be synonymous with love, in which case the proposition has limited value. Preference tells us nothing about the content of an actor's psychology (other than that such content exists), which throws the meaningfulness of Mueller's love theory into question. The concept of demonstrated preference may provide insights into psychology, but such insights are outside the realm of economics.

An important question thus arises: How exactly is love related to gifts? Perhaps this is a tautology, in which case it has very little value.[16] Or perhaps love is demonstrated through gifts, but how can we know this for sure? It would appear that all we can say is that a preference is demonstrated by gift-giving, but we cannot say why that preference exists (we cannot simply attribute it to love) and can only refer to the subjective valuations of the giver. Stranger still is the claim that love is demonstrated by the giving of gifts in proportion to one's love for the receiver. Consider, for example, "If there are only two of us, and I love you equally with myself, then I will give you the use of half of what I own: it's that simple."[17] As noted above, giving a gift merely demonstrates that the desire for giving is greater than any nongiving activity. Beyond this basic fact of preference, it does not reveal anything. Like utility, love has no unit of measurement. It makes no sense to discuss love by comparing quantities of goods or money, much less by performing mathematical operations on the "quantity of love."

Mueller and Mises

Another major difficulty with Mueller's study is his misunderstanding of the work of Ludwig von Mises and the Austrian school. Mueller's view of Mises in the history of economics is odd, as he classifies Mises with economists such as Kenneth Arrow and Gary Becker (chapter 7). For example, the section describing Mises' utility theory is titled "The Neoclassical View of Human Nature," implying that Mises is representative of neoclassical opinion—a bizarre view to say the least.

Mueller recognizes that the Misesian position on human welfare threatens his own, and he attempts to address this. He summarizes Mises' position as follows: "Pleasure or satisfaction must be construed broadly enough to embrace all actions.… But if we accept this premise, it follows that all human action is a kind of exchange … an exchange of one state of pleasure for another that he values more highly."[18]

Mueller understands that Mises' theory incorporates all human behavior, and not just certain narrow versions of it. This broadness is precisely why the theory explains both gifts and exchanges. It thus answers Mueller's objections without having to resort to any sort of distribution theory. However, Mueller does not pause to refute Mises' approach to utility or his position on action-as-exchange but proceeds as if it were sufficient to show that Mises disagrees with his (Mueller's) position. It is not enough to reference Mueller's earlier claims that both exchanges and gifts occur in an economy and that it is bad economics to forget the latter. Mises' theory already accounts for both exchanges and gifts and provides a deeper theory of all human behavior as a kind of exchange. His theory is also logically prior to Mueller's, and, in any case, Mueller does not engage Mises' arguments on these points.

The above summary also contradicts an earlier remark that Mueller made: “All schools of neoclassical economics (including Mises’ Austrian theory) collapse justice to justice in exchange—as if all wealth were personal and exchanged but never given.”[19] How does this square with Mueller’s account of Mises’ utility theory, which, as he points out, is broad enough to account for all human behavior? It does not. Mueller justifies this claim with the following:

> This was the premise of Mises’ assertion, “Where private property exists, only market prices can determine the formation of income.” This is wrong because of the usually false assumption that any goods produced and exchanged … are consumed by that person. Though usually implicit, Mises made this assumption explicit when he wrote, “Where each household is economically self-sufficient, the privately owned means of production exclusively serve the proprietor. He alone reaps all the benefits derived from their employment.” It amounts to the claim that there are neither personal gifts nor common goods to be distributed: no families, foundations, government, or for that matter, business firms.[20]

A reading of the original passage reveals that its meaning is completely different from that depicted above, and does not support Mueller’s argument at all. Mises is discussing the differences between participating in the division of labor and living outside it. If one lives outside it, one attempts to satisfy one’s desires without reference to the wants of other people, while within the division of labor, there is social interdependence. Mises is pointing out a special case where *by definition* there is only an isolated household. He is not making a claim about households in the real world, which are involved in the division of labor. The quotation has nothing to say about whether gifts are possible, nor does it make assumptions about individual consumption or the actual existence of institutions. Additionally, Mises would never have made the assumption that all goods are consumed by those who produce and exchange them.

The troubles continue. From the first quotation above (p. 165), Mueller proceeds to claim that

> Moreover, it follows from the same theory that humans have no choice about the persons they choose as the end of their actions. “The power to choose whether my actions and conduct shall serve myself or my fellow beings is not given to me,” Mises maintained.… Presumed to have no choice of persons as ends, humans are therefore presumed to arrange all goods on a single comprehensive scale of preference, rather than on separate scales for persons as ends and other things as means.[21]

This also does not follow. The fact that human beings continuously update their ends in no way indicates that they do not choose them. The Mises quotation, from *Socialism*, appears to support his argument. However, the quote is in no way related to Mueller's thesis regarding the choice of ends. As any reader may discover, Mises in this passage is attacking the notion that there is an ethical divide between egoistic and altruistic motives. What Mises is speaking of is the division of labor, and the fact that in a free society, individuals, in order to make themselves better off, must make others better off as well.[22] The inability to choose that Mises is speaking of is the inability to choose that which will provide satisfaction to other people. Mises is not speaking of the praxeological categories of means and ends, as Mueller incorrectly asserts. In fact, Mises' writings are clear that human beings do choose their ends. The very notion of scarcity implies the choice of ends, and necessitates it.[23]

Mueller's notion of separate value scales is also suspect. As mentioned above, value is only meaningful in economics in terms of preference, and preference is only revealed through action—through the choosing of one thing and the setting aside of another. Human beings do not choose between means and ends, but between different ends. The value of the means thus takes on the value of the ends (is imputed to them), and there is then no separation of value scales.[24]

Next, consider this statement of Mueller's regarding Mises' analytical methods: "Both sides in the libertarian-solidarist controversy resorted to loose and inaccurate metaphors. The libertarians' were borrowed from physical sciences, such as Mises's assertion of economic 'laws' governing a 'price mechanism' that powered and 'evenly rotating economy.'"[25]

The laws of economics Mises discussed are not metaphors, especially not metaphors taken from the physical sciences. This point is made endlessly throughout his body of work.[26] Mises time and again railed against the adoption of methods in economics taken from the natural sciences, in favor of logical laws derived from the fact of human action (praxeology). Coming from Mueller, who argues throughout his book that economics must be a theory of real human behavior, this claim to the contrary is astonishing. As for the evenly rotating economy (ERE), *pace* Mueller's assertion, the ERE is not powered by economic law nor does it have any relation to economic conditions in the real world nor is it in any way Mises' attempt to escape (as Mueller claims) from the gift problem. The ERE is an analytical tool used *only for the purpose of mentally separating profit from interest*.[27]

Let us allow Mises to speak for himself on this issue:

> [The problems of a lack of realism] do not affect the service which this imaginary construction renders for the only problem for whose treatment it is both appropriate and indispensable: the problem of the relation between the prices of products and those of the factors required for their production, and the implied problems of entrepreneurship and of profit and loss. In order to grasp the function of entrepreneurship and the meaning of profit and loss, we construct a system from which they are absent. This image is merely a tool for our thinking. It is not the description of a possible and realizable state of affairs.[28]

These points are so elementary, so clearly and repeatedly stated by Mises, that the only conclusion the reader can draw is that either Mueller has not read the works of Mises that he cites, or he fails to understand the straightforward meaning of Mises' words. This is deeply troubling because any reader not familiar with the work of Mises and the Austrians obtains from Mueller's book a misleading picture of their ideas and arguments.

This brings us to some problems of Mueller's own theory. As a general point, Mueller's insistence on reestablishing the Scholastic tradition in economics neglects an important point made in the history of economic thought: that the intellectual heritage of Scholasticism is reflected in Austrian economics. The roots of Austrian theory in Scholastic political economy have been well documented, and it has been argued extensively that the Austrian school is in fact the intellectual continuation of Scholastic political economy.[29] I shall leave the question of heritage aside though, and focus on more substantive claims. Specifically, it was in fact Menger who most completely and correctly expounded the subjective theory of value, following in the footsteps of the Scholastics, and—along with the work of later Austrians—preemptively solving the economic problems raised by Mueller. Mueller bypasses this point by dismissing the Austrian contribution to economic theory with the following remarks:

> Menger routinely focused on exchange between isolated individuals—for whom the gains from exchange are not necessarily equal or even comparable—and reasoned from this special case that there can be no such thing as equality of exchange value, justice in exchange, or equilibrium. Most of his Austrian-school followers today reject even the mathematical description of economic events. (Mathematical description would show the Austrian system to be even more logically incomplete than the other schools of neoclassical theory, since the Austrian school implicitly uses only two equations to describe the four basic elements of economic theory [utility, production, equilibrium, and distribution], while other neoclassical schools use three). Since without mathematical

> treatment, empirical verification of an economic theory is virtually impossible, despite its impressive beginnings Austrian-school economics has contributed relatively little in recent decades to the development of economic theory, and it has become virtually irrelevant to the formulation of economic policy.[30]

I have mentioned some of Mueller's claims regarding the alleged missing pieces of Austrian economics above. As for the claim regarding the failings of Austrian theory, how can Mueller simply dismiss the historical contributions of the school: its theory of interest, entrepreneurship, analysis of socialism, business cycle theory, methodology of the social sciences,[31] or any of the countless books and articles written in the Austrian tradition since 1871? This bold claim appears in stark contrast to the facts. It is especially odd considering that Mueller takes many of his economic cues from the work of Philip Wicksteed,[32] who is often regarded as a member of the Austrian tradition.[33] Mueller also relies throughout on Lionel Robbins' *Essay* (although with certain qualifications), which was written at a time when Robbins was an Austrian, and that book explicitly cites Ludwig von Mises as a foundational influence.[34] A scholar wishing to pass judgment on Austrian economics should be aware of this significant primary and secondary literature.

Next, the claim that Austrians ignore equilibrium analysis is untrue. It is correct that Austrians tend to take a very different view of the matter than most neoclassical economists, but it is entirely incorrect to imply that equilibrium is absent from Austrian economics.[35] However, Menger did oppose the notion of equality of value in exchange. The idea of equality appears periodically in Mueller's book and deserves attention. That goods exchanged are equal in value is a confusion dating from the premarginal era, which often focused on the physical aspects of goods in an attempt to discover the origin of value. As Mises puts it:

> An inveterate fallacy asserted that things and services exchanged are of equal value. Value was considered as objective, as an intrinsic quality inherent in things and not merely as the expression of various people's eagerness to acquire them. People, it was assumed, first established the magnitude of value proper to goods and services by an act of measurement and then proceeded to barter them against quantities of goods and services of the same amount of value. This fallacy frustrated Aristotle's approach to economic problems and, for almost two thousand years, the reasoning of all those for whom Aristotle's opinions were authoritative. It seriously vitiated the marvelous achievements of the classical economists and rendered the writings of their epigones, especially those of Marx and the Marxian school, entirely futile. The basis of modern economics is the cognition that it is precisely the disparity in the value attached to the

> objects exchanged that results in their being exchanged. People buy and sell only because they appraise the things given up less than those received. Thus the notion of a measurement of value is vain. An act of exchange is neither preceded nor accompanied by any process which could be called a measuring of value. An individual may attach the same value to two things; but then no exchange can result. But if there is a diversity in valuation, all that can be asserted with regard to it is that one *a* is valued higher, that it is preferred to one *b*. Values and valuations are intensive quantities and not extensive quantities.[36]

The very fact of exchange demonstrates that for both parties what is given up is valued less than what is obtained. Value is subjective and has no component that exists outside the minds of acting humans. There is therefore no equality of exchange. It might appear pedantic to focus on the above passage from Mueller, which is relatively unspecific. As discussed above however, Mueller's own theory depends on a careful disregard for Austrian theory, which not only provides the answers Mueller claims are absent in economics but also threatens the validity of Mueller's own theory.

Trade and Economic Growth

Pearce's comments on price theory outlined above provide much of the groundwork for his criticism of the "growth imperative," which is the main target of his book. The growth imperative requires that economic growth in all nations increase as quickly as possible, no matter the cost to human beings or the environment. It is important to note that Pearce never cites any instances of mainstream economists actually endorsing the growth imperative. We must simply take his word for it that economists support it. Pearce is not necessarily wrong that growth is encouraged for its own sake, or at great cost, but he fails to show the connection between growth and the economics profession.

Who promotes growth, and why does anybody care about economic growth as an end in itself? Pearce's answer is that multinational corporations, the consumers they supply, and economists who support them—all motivated by greed and the desire for material wealth—require growth in order to supply their ever-expanding consumption needs.[37] Let us assume, for the sake of argument, that this is a completely accurate characterization of the proponents of economic growth. If this is the case, then are not the preferences of consumers, economists, and multinationals the true problem? By Pearce's admission, the desire for growth is merely a symptom of the problem, which is moral in nature. If Pearce is advocating widespread moral reform and the rejection of materialism, then I strongly agree with him and encourage his efforts. To attack economic growth, however, is at best to attack a symptom, and at worst, to throw out the baby with the bathwater.

Further, Pearce never explains why economic growth is necessarily bad. We are treated to an analogy between the economy and the human body: growth is good for children but bad for adults who have finished their natural growth period. Yet it is unclear why this analogy applies to economic growth. Further, how does Pearce know we have reached the period where growth should naturally cease, and how does he know that such a point exists at all? Even if we grant both this analogy and the idea that the world faces all the crises Pearce claims, why can we not simply effect serious institutional and economic changes to solve current problems, and then proceed with further "sustainable" growth? These questions cry out to be answered.

In his campaign against economic growth, Pearce attacks large producers and innovations in particular. He quotes the philosopher Ananda Coomaraswamy and claims that trade and innovation eliminate the human element from labor, which according to both is a great evil of labor-saving machinery: "The carpet loom is a tool, a contrivance for holding warp threads as a stretch for the pile to be woven round them by the craftsmen's fingers; but the power loom is a machine, and its significance as a destroyer of culture lies in the fact that it does essentially the human part of the work."[38] This distinction between good and evil technology is completely arbitrary. Why not make the same distinction between the handloom and no tool at all? Why is the power loom a machine and not the handloom? Both reduce labor time and the amount of resources used, so where does the moral distinction arise? This sort of criticism of technology is actually quite irresponsible in the face of Third-World poverty, which could be largely eliminated through the productivity gains achieved by properly applying labor-saving innovations.

Perhaps the greatest failing of the book is that throughout, Pearce never makes an explicit distinction between the economics of a free market and economic systems with substantial government intervention and regulation (wherein firms are granted various monopoly privileges). This failure completely undermines his assault on growth policy and free trade, which depends on criticisms of the World Bank, the International Monetary Fund, and other government-sponsored institutions.[39] Admittedly, the free-market/regulated-market distinction is frequently ignored in the popular press, especially in discussions of free trade, by which is usually meant "government-managed trade." For example, the North American Free Trade Agreement (NAFTA) might be considered free-trade legislation in some circles but that description is purely euphemistic. It is important to recognize the distinction between free and regulated trade because it is only under conditions of free trade that specialization through the division of labor functions properly. Pearce falls prey to this error in a chapter titled "The Cost of Free Trade," where he falsely conflates EU trade policy with purely free trade[40] and believes he has refuted the law of comparative advantage.[41] If Pearce wishes to argue that the trade policy of developed nations in recent decades has caused severe problems for the rest of the world, then there is much that could be said for his position. However, such an argument is entirely different from disputing the truth of the law of comparative advantage, which is a necessary implication of the law of scarcity and the fact of the unique character of each human being.[42]

A problem related to the comparison of economic systems appears in Mueller's book as well. As with Pearce, Mueller does not direct attention to comparing economic systems, other than to dismiss totalitarianism. This leads to partial discussions of important issues. For example, Mueller devotes a considerable portion of the book to discussing the economics of the family. Yet, he does not provide an evaluation of the influence the state exerts on the family. For instance, he looks favorably on public education,[43] but nowhere does he discuss the possible effects of public education on either the quality of education or the family itself.[44] Similarly, he argues that government spending be financed from taxation and not from the issue of fiat currency, and he lauds the success of the classical gold standard (chapter 16); yet, he says nothing of the institution of central banking (specifically the Federal Reserve), which played the most important historical role in eliminating the gold standard and issuing vast quantities of fiat money.

In part 4 of *Redeeming Economics* he offers a series of tepid economic reforms, such as emphasizing a budget based on taxation rather than money creation, ensuring the solvency of Social Security, and so on. These recommendations, however, appear to run counter to the major argument of the book: that economic theory is fatally flawed. Surely if the problems with economic theory (and thus, policies based on those theories) are so great, something more significant than mild reform is in order. If a little reform is all that is necessary, there does not appear to be much at stake in the battle for economic theory.

Resource Economics

Another important topic in Pearce's book is environmental economics. The "cult of bigness" threatens the environment, according to Pearce, and betrays humanity's moral responsibility to the earth, even threatening its very survival.

Pearce lists many problems of resource overexploitation that pose serious and immediate threats to human and animal life.[45] He attributes these problems to economic growth and the greed of multinational corporations. However, each of the problems he mentions, from water shortages to deforestation to global warming, has been addressed—most of them at great length—in the resource economics literature. This truly enormous body of research has demonstrated incontrovertibly that secure property rights are the key to resolving conflicts of resource use and overexploitation. The reason resources are consumed at irresponsible and unsustainable rates has little to do with "economic growth" and much to do with that fact that many resources have historically been unowned or owned by governments. Systems of private (and sometimes, communal) ownership, on the other hand, ensure that owners have the maximum incentive both to wisely steward their resources and to develop rules of governance. Resource overexploitation is not a crisis of bigness but a crisis of intervention, or the prevention of both local and international methods from effectively managing resources (especially through the price system). However, Pearce does not cite any of the research on these topics.[46] In addition, as has already been noted, Pearce elsewhere expresses disdain for innovations (such as labor-saving machines and automation), which conserve scarce resources and therefore represent a part of the solution to resource management problems.

However, Pearce does have an argument that might refute free-market theories of resource economics. He argues that prices cannot incorporate enough information to provide proper incentives and that neoclassical pricing models neglect time and other variables that must be taken into account for humans to wisely manage natural resources.[47] Now, it is perfectly true that some pricing models do not incorporate time, uncertainty, and the limitations of human knowledge. However, economic systems that do explicitly incorporate these problems also reach the conclusion that a freely operating price system is the best method of ensuring the wise use of resources.[48]

In other words, realistic price theory explains how prices perform the function of conservation. If new supplies are found, then the price falls, people can continue to utilize them, and the problem disappears. If no new supplies are found, the price will remain high, ensuring a *restricted usage of the resource*. Pearce overlooks this vital function of prices. Incidentally, to claim, as Pearce does, that human beings are in danger of undermining their own existence through careless exploitation of resources, requires evidence that Pearce does not provide. It is certainly the case that natural resources are finite, but the relevant question is whether humans are discovering and exploiting resources faster than our ability to consume them. This is an empirical matter that cannot be settled by theory.

Once again, Nelson's analysis succeeds on this topic in a way that Pearce's does not. As the title of his book indicates, Nelson identifies a competing religion that appears to be replacing economics—environmental religion—to the understanding of which much of the book is dedicated. Nelson traces the environmental ideology through history, noting its Christian roots in Calvinism, but also its secular ones in Rousseau and Marx. Environmentalism, argues Nelson, is the dominant secular religion in contemporary America. Nelson is not just arguing that environmentalism can be interpreted as a religion. As he continuously points out (especially in parts 2 and 3 of the book), without a divine foundation of sorts, environmentalism falls into innumerable contradictions; it simply cannot reconcile its goals with its stated reasoning. To take one example (developed in chapter 10), many environmentalists support the restoration of land to a "natural" state; that is, a state that existed before industrialization. Yet, such restoration requires active management by human beings themselves, as well as a human interpretation of what is natural in the first place: a manifestly unnatural position.

Nelson also attempts to find solutions to problems of resource use, engaging the ideas of libertarian economists (with whom he does not entirely agree). Nelson also provides what to my knowledge is a unique discussion of Murray Rothbard's place in the discussion of economic religions. It is unfortunate that the scope of Nelson's book does not allow for a more extensive analysis of this point. Such research would have to account for Rothbard's detailed views on value freedom and the role of economists in policy,[49] as well as his take on secular religion, especially his essay, "Karl Marx: Communist as Religious Eschatologist" (originally published in 1990),[50] both of which propose arguments similar to Nelson's.

Value Freedom

Pearce's book is extremely critical of many of the values allegedly held by both economists and the public at large. Because of this, clarifying the concept of value is fundamentally important for this review and requires special emphasis. The problem is that Pearce overlooks the fact that economic science can be *vertfrei*, or value-free. That is, the propositions of economics are scientific; they may be either true or false, but they contain no moral content. Pearce recognizes value freedom in the natural sciences,[51] but he fails to apply this insight to economics, confusing economic theory with economic policy recommendations (a recommendation necessarily includes certain ethical assumptions). More specifically, there is confusion between economic theory and the value judgments of the economists who develop it. As noted above, Pearce may be quite right is his assessment of the moral values of economists, but this tells us little about the truth or falsity of their theories.[52]

Starting from this mistaken view of economics, Pearce holds that "economics is subservient to philosophy."[53] Now, this is true in the sense that economics rests on certain methodological and epistemological principles, that is to say, on the philosophy of science. Pearce appears to mean, however, that the values of economics are set by the philosophical dispositions of society. However, moral philosophy need not enter into economic theorems, only policy recommendations. As a branch of applied logic, economics is just as free from moral claims as, say, mathematics. Even when economists make recommendations, their *theorems* do not acquire a moral character; economists either add value judgments to economics or simply derive false inferences from them. The above claim therefore has no bearing at all on economics, only (at best) on the moral character of economists.

Continuing his train of thought, Pearce states, "Economics accepts its instructions … from philosophical principles. As such, the nature of economics will change when the instructions change."[54] Asserted this way, this statement is simply false. The laws of economics apply to all times and places, because they are implied in the concept of purposive behavior (human action), which is a necessary feature of conscious human life, and the starting point of economics. Once again, the above quotation is a sign of confusion regarding the epistemological status of economics. It is true that the value judgments and purposes *of economists* might change (this appears to be what Pearce actually means), but this is entirely different from a change in the nature of economic science.[55]

Nelson does not fall into the trap of seeing economics as inherently value-laden. Rather the problem appears to be with the economics profession and not science as such.[56] In conclusion though, Nelson appears to take economic religion as a given. One might expect a call for a return to the strict separation of economic theory from policy, or perhaps for a clarification by policy economists regarding their role as advisors. Yet, Nelson remains mostly quiet about these issues. This is by no means a criticism, merely an expression of surprise. Mueller, too, recognizes the value-freedom of economics, yet he sees this as a criticism of economics rather than an advantage. In his view, if economics cannot provide a set of policy recommendations, then so much the worse for it.[57]

Conclusion

In summary, the books by Pearce and Mueller are severely lacking in content that is both original and sound. Some criticisms of mainstream economics strike home, but such passages are sadly the exception rather than the rule. It is more often the case that confusion, misreading, insufficient evidence, and faulty reasoning cripple their analyses. Nelson's book, on the other hand, provides a well-researched, fascinating study of the evolution of two leading secular religions, economics and environmentalism. His book deserves serious study by anyone interested in where contemporary economics has come from, and perhaps more importantly, where it is going.

Notes

1. Joseph Pearce, *Small Is Still Beautiful: Economics as if Families Mattered* (Wilmington, DE: ISI Books, 2006), 6–8; emphasis in original.
2. Pearce, *Small Is Still Beautiful*, 287–88.
3. Robert H. Nelson, *The New Holy Wars: Economic Religion Versus Environmental Religion in Contemporary America* (University Park, PA: Pennsylvania State University Press, 2010), 31.
4. Pearce, *Small Is Still Beautiful*, 17, 66–67.
5. On some relevant implications of Keynes' life and work, cf. Joseph T. Salerno, "The Development of Keynes's Economics: From Marshall to Millennialism," *Review of Austrian Economics* 6, no. 1 (1992); and the discussions in Nelson, *The New Holy Wars*.
6. Pearce, *Small Is Still Beautiful*, 17. It is unclear what Pearce means when he says economics "measures reality" through prices.
7. Pearce, *Small Is Still Beautiful*, 20. Pearce does note correctly that "value is qualitative not quantitative" but fails to move beyond this distinction.
8. Pearce, *Small Is Still Beautiful*, 17.
9. Pearce, *Small Is Still Beautiful*, 18.
10. Schumacher—a student of the great historian of economic thought Joseph Schumpeter—should have known better than to make such ambitious claims.
11. John D. Mueller, *Redeeming Economics: Rediscovering the Missing Element* (Wilmington, DE: ISI Books, 2010), 357.
12. Mueller, *Redeeming Economics*, 257–60.
13. Mueller's characterization of utility analysis also leads him into the fallacy of increasing marginal utility (Mueller, *Redeeming Economics,* 56–57). His example is open to the objection that he is not considering equally serviceable units of a good but rather different goods altogether. Cf. Murray N. Rothbard, *Man, Economy, and State* (Auburn, AL: The Ludwig von Mises Institute, 2004, 15n15, 73–74).
14. Rothbard, *Man, Economy, and State*, 623.
15. Mueller, *Redeeming Economics*, 108.

16. That this is a tautology is implied in the discussion (Mueller, *Redeeming Economics*, 23–24, 139) when Mueller cites Augustine as the source of this idea, without explaining why it is necessarily true.

17. Mueller, *Redeeming Economics*, 143.

18. Mueller, *Redeeming Economics*, 165.

19. Mueller, *Redeeming Economics*, 120.

20. Mueller, *Redeeming Economics*, 120.

21. Mueller, *Redeeming Economics*, 165.

22. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (Indianapolis, IN: Liberty Fund, 1981), 357.

23. Ludwig von Mises, *Human Action: The Scholar's Edition*, ed. Jeffrey M. Herbener, Hans-Hermann Hoppe, and Joseph T. Salerno (Auburn, AL: The Ludwig von Mises Institute, 1998), 92–94, 201.

24. Mises, *Human Action*, 201.

25. Mueller, *Redeeming Economics*, 123.

26. Cf. Mises, *Memoirs*, 46–47, for an appropriate anecdote regarding his rejection of "metaphors borrowed from mechanics." See also Ludwig von Mises, *Method, Money, and the Market Process: Essays by Ludwig von Mises*, ed. Richard M. Ebeling (Norwell, MA: Kluwer Academic Publishers, 1990); Mises, *Human Action*; and Ludwig von Mises, *Epistemological Problems of Economics*, trans. George Reisman (Auburn, AL: The Ludwig von Mises Institute, 2003).

27. This confusion is perhaps exacerbated by Mueller's view of the theory of interest. He does not discuss the topic at length, but he appears to endorse a variety of the dynamic productivity theory, and cites Schumpeter as an authority (Mueller, *Redeeming Economics*, 35).

28. Mises, *Human Action*, 249

29. Rothbard, *Man, Economy, and State*; Jesús Huerta de Soto, "New Light on the Prehistory of the Theory of Banking and the School of Salamanca," *Review of Austrian Economics* 9, no. 2 (1996): 59–81; Jesús Huerta de Soto, *The Austrian School: Market Order and Entrepreneurial Creativity* (Cheltenham, UK: Edward Elgar, 2008); Jörg Guido Hülsmann, *The Ethics of Money Production* (Auburn, AL: The Ludwig von Mises Institute, 2008).

30. Mueller, *Redeeming Economics*, 85–86.

31. Here and elsewhere, Mueller assumes that economics is equivalent in method to the natural sciences (*Redeeming Economics*, 170, 358–59) and proceeds by method of empirical analysis. However, the claim that Austrians cannot verify their own theories empirically is both false and irrelevant, as can be seen in the voluminous works on Austrian method and methodology, especially those of Mises (not to mention Austrian empirical work). In addition, it would be intriguing to know what exactly Mueller believes are the contributions of mathematical economics; for example, what has been added (and not merely rephrased) by the mathematical method in economic theory?

32. Mueller, *Redeeming Economics*, 133 and throughout.

33. Israel M. Kirzner, "Philip Wicksteed: The British Austrian," in *Fifteen Great Austrian Economists*, ed. Randall G. Holcombe (Auburn, AL: The Ludwig von Mises Institute; Peter G. Klein, "The Mundane Economics of the Austrian School," *Quarterly Journal of Austrian Economics* 11, nos. 3, 4 (2008), 165–87.

34. Cf. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, 2nd ed. (London: Macmillan 1962 [1936]). The influence is especially felt on matters of the method and epistemological foundations of economics, which run contrary to Mueller's endorsement of Friedman-style positivism.

35. On the history of equilibrium constructs in Austrian economics, cf. Klein, "The Mundane Economics of the Austrian School."

36. Mises, *Human Action*, 204–5

37. Pearce, *Small Is Still Beautiful*, 29–45.

38. Pearce, *Small Is Still Beautiful*, 76, quoting from Coomaraswamy, *Art and Swadeshi*.

39. Pearce, *Small Is Still Beautiful*, 212–17.

40. Pearce, *Small Is Still Beautiful*, 48–58.

41. Somehow, Pearce manages to invoke the authority of Maurice Allais in opposing EU trade policy. Is Pearce perhaps unaware that Allais' work in growth economics and trade theory is exactly the mathematical, unrealistic sort Pearce condemns? Pearce may either reject these methods or accept them, but he cannot eat his cake and have it too.

42. Cf. Rothbard, *Man, Economy, and State*, 95–102.

43. Mueller, *Redeeming Economics*, 253.

44. He also claims that government wage subsidies to needy families if "properly designed" do not cause unemployment (Mueller, *Redeeming Economics*, 125) but does not explain how.

45. Pearce, *Small Is Still Beautiful*, 32–35.

46. On resource economics, cf. Murray N. Rothbard, "Law, Property Rights, and Air Pollution," *Cato Journal* 2, no. 1 (1982); 55–99; Nelson, *The New Holy Wars*; and Garrett Hardin, "The Tragedy of the Commons," *Science* 162, no. 3859 (1968): 1243–48, and the enormous literature it has engendered. Of particular interest may be the work of Elinor Ostrom, whose works, too numerous to be cited here, are useful in demonstrating the ability of human societies to solve the problems of resource overexploitation.

47. Pearce, *Small Is Still Beautiful*, 46–48. Pearce's major source on resource pricing is P. S. Dasgupta and G. M. Heal, *Economic Theory and Exhaustible Resources* (Cambridge: Cambridge University Press, 1979). Pearce does not appear to realize that this study incorporates all those aspects of mechanistic economic theory he singles out for criticism, such as restrictive assumptions regarding human behavior and preferences. (See note 12 above.)

48. Cf. Rothbard, *Man, Economy, and State*.

49. Rothbard, "Praxeology, Value Judgments, and Public Policy," in *The Logic of Action I* (Cheltenham, UK: Edward Elgar, 1997). This collection contains several other papers on the same topic.

50. Rothbard, "Karl Marx: Communist as Religious Eschatologist," in *The Logic of Action II* (Cheltenham, UK: Edward Elgar, 1997).

51. Pearce, *Small Is Still Beautiful*, 282–83.

52. To avoid confusion, value freedom does not imply a position of moral relativism. Statements such as "force equals mass times velocity" do not imply anything about the morality of an individual who uses physical force to harm another individual. Economics as a science can only inform our moral understanding, but it cannot define or be defined by it. Two examples may prove instructive. Consider the description of the capital stock per unit of effective labor found in the Solow growth model: $k(t) = sf(k(t)) - (n + g + \delta)\ k\ (t)$. There are many objections that could be made to this particular model, but it nicely illustrates the absence of moral content in economic propositions. There are no statements explicit or implicit concerning whether growth is good or bad, or even whether individuals should pursue pro-growth policies. We could also use as an example a basic principle—the law of diminishing marginal returns—that states: "with the quantity of complementary factors held constant, there always exists some optimum amount of the varying factor" (Rothbard, *Man, Economy, and State*, 35). What moral content is there in this statement?

53. Pearce, *Small Is Still Beautiful*, 73.

54. Pearce, *Small Is Still Beautiful*, 74.

55. If Pearce means to argue that human conduct should conform to sound moral principles, then it is hardly likely that many people will disagree, especially if this entails turning away from materialism and toward an appreciation of the spiritual life. Economic growth is certainly not equivalent to spiritual growth. Yet, if this is all that Pearce's arguments ultimately reduce to, there is nothing original that need concern us that has not been dealt with over the last three millennia by countless philosophers, theologians, and popular writers of Eastern and Western civilization.

56. Nelson, *The New Holy Wars*, 36, 91n, 99, 243, 328.

57. Mueller, *Redeeming Economics*, 113, 128.