978-1-108-82438-5 — Seven Deadly Economic Sins
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Excerpt
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# Introduction

## *Why Care About Economics?*

Even if you could not name them all, you have probably heard of the Seven Deadly Sins. Here is the standard list: pride, greed, lust, envy, gluttony, wrath, and sloth. Those seven are not the only sins there are, but because we are so susceptible to them – seemingly almost psychologically primed to be seduced by them – and yet they lead to so much harm in both individual lives and in society, they are wisely considered among the most important things we all need to beware. One need not be a Christian, or a subscriber to any particular faith at all, to see how easily we can succumb to them, how much mischief they can and do create in our lives, how beneficial it would be to us if we could resist them, and yet how much effort it takes to resist them. Just when we might think we have mastered one, we discover we are indulging others, with exactly the negative consequences we would predict. There is, unfortunately, no such thing as conquering them once and for all. They continue to recur, often when we least expect it, and when they do, they can seem so alluring, so self-promoting and even emotionally satisfying, that it is only after the fact that we might look back on our behavior and feel regret, embarrassment, even shame. In the heat of the moment, however, it can be a different story.

There are, however, central deadly *economic* sins as well. That is what this book is about. Committing these economic sins might not prevent you from getting into heaven, but what they can do is, like their sinful counterparts, wreak havoc – in our private lives as individuals and in our communities when they find their way into public policies. They are "deadly" mistakes in economic reasoning to which we seem psychologically susceptible and that can seem intuitively compelling, but, when viewed in the cool, objective light of dispassionate analysis, reveal themselves to lead to negative outcomes like waste, loss, and forgone prosperity. Because these can have real, if unintended and perhaps surprising, effects in people's lives, however, understanding both *that* and *why* they are fallacies is crucial.

In the chapters that follow, I lay out what I contend are seven central economic fallacies. I explain why they are fallacies, why believing in them leads to mistakes and loss, and how exorcizing them from our economic thinking can help us avoid costly errors and enable positive benefit. The book is designed not so much for economists or others who are already trained in or expert at economics – though they may be interested to see what a philosopher makes of their discipline – but, rather, for the educated reader who is concerned about economic matters and who wants to understand how economics can help us make better decisions in our private lives and in our public policies. It is aimed, in other words, at the educated citizen. Of course, there are many considerations that should go into deciding how, for example, to vote – everything from our moral values to prudential concerns to strategic reasoning. Economics cannot decide all of that. Even a firm understanding of the basics of economics will not tell you which party or candidate to support. But economics can help us understand how to evaluate the likely consequences of proposed policies; it can help us understand how prosperity is generated, and what endangers it; and it can help us see when a policy proposal that sounds good might not in fact be all that it is cracked up to be – as happens, alas, all too often. It can help us become not just better-informed voters but better reasoners about voting, and hence better citizens.

The book is based on the assumption that we all want a just and humane society – that, wherever we are on the political or economic spectrum, we all want a society whose public institutions protect justice and in which people are able to construct for themselves lives of meaning, purpose, and happiness. My argument will be that increasing prosperity – not just wealth, but widespread and increasing opportunity for flourishing lives – is a necessary prerequisite of a life worth leading and of public institutions worth supporting. Economics can help us achieve prosperity, even if it cannot tell us exactly what we should do with our prosperity. And economics can highlight several mistakes in reasoning that we are prone to make. Exposing those mistakes can enable greater prosperity and thus increase the chances of ever more of us leading genuinely flourishing lives. Or so I will argue.

## Why Trust Economics?

I don't know you, of course, but I would be willing to bet that you have lots of opinions about economics. Some of your opinions you may hold strongly, and some of them you may believe are all but self-evident. That is true for most of us, including me. When you hear the word "socialism," for example, you may think of Scandinavian countries like Sweden or Norway, and thus attach positive associations to the term; or you may think of the former Soviet Union or contemporary Venezuela, and thus conjure negative thoughts. And whichever way your thoughts incline, you probably think the other side is making some clear mistake.

Curiously, however, many of us who have strong beliefs about economics have not had any training in economics. And consider our leading national politicians, or the people who pass laws or enact regulations on economic, banking, financial, or business institutions. The disheartening news is that most of them have not studied economics either. If most of us do not know much about the discipline of economics, and do not pay much (or any) attention to economists, why do we nevertheless have such strong economic opinions?

Part of the explanation is probably the general propensity we have to overestimate our knowledge. People who know little about Israel and Palestine may nevertheless have strong opinions about what to do regarding their conflicts; people who know little about medicine have strong opinions about vaccines or about who has and how to treat ADHD or depression; and so on. And many of us assume that because we know *something* well – our particular vocation or area of expertise, for example – then our opinions in other areas can be trusted as well. It is probably safe to say, however, that many (most?) of the people who have strong opinions about, say, whether we should raise the legal minimum wage have not reviewed the economic studies about it. Similarly with our opinions about sweatshops, "fair" vs. free trade, nationalization of healthcare, whether immigration is a net positive or not, and so on. Many of us have opinions about these and other economic matters, and we may vote in part on the basis of these opinions, but without knowing what economics has to say about them we are not in the best position to know whether our opinions are reliable or trustworthy.

We should not necessarily judge ourselves negatively, however, for not knowing about these matters. After all, we are all busy with other things that are much more consequential in our actual, everyday lives. Most of us simply do not have the time, for example, to read the Affordable Care Act (ACA) (has *anyone* actually read all 11,000-plus pages of it?). This implicates one of the ideas we will discuss in the chapters that follow, namely, *opportunity cost*: before deciding to spend any of our resources (including our time) on anything, we should think about what we are giving up to do so. Consider: the average person can read approximately half a page per minute; at that rate, it would take some 367 hours to read the ACA. If you were to read for eight straight hours a day, it would take you 46 days, or about nine work weeks, to read it. Is it worth it? Ask yourself what else you might do with those 46 days. And then ask yourself what it would gain you to have read it. You would know what's in it, but, to be honest, so what? As a single individual person, you could have had approximately zero effect on whether it passed – so why bother? And that is just one law; what about the thousands of others in effect and under consideration by just the federal government, not to mention those in effect or under consideration by state and local governments, and not to mention the tens of thousands of pages of federal, state, and local regulations and proposed regulations. Given the value to you of whatever else you could do, devoting your scarce time to reading those actual and proposed statutes, bills, and regulations would almost certainly not be worth it. Similarly with the literature on, say, the minimum wage. There are numerous empirical studies of various aspects and cases related to mandatory minimum wages: who, other than a trained economist who works in the field, should spend the time required to master them?

There is also, however, as paradoxical as it might sound, such a thing as *rational ignorance* – the idea that it is actually rational to remain ignorant of indefinitely many things. I do not know how satellite TV works, for example, or how to do a Tommy John surgery or how to file an amicus brief. Thankfully, however, I don't need to: there are others who do know those things, which relieves me of the burden of learning and frees me to learn about other things that relate more closely to what I actually do. If I were a satellite engineer or an orthopedic surgeon or an attorney, then I would know about the things concerned with what I did – but then I still would not know about the other things, or about the seventeenth-century Leveller movement or eighteenth-century British political economy (which I do know something about). Not having to know those other things enables me to focus my attention on a narrower range of things that connects more closely with my own interests and my own comparative advantage.

*Comparative advantage* is another concept we will discuss. The idea is that, although I might be able to be a satellite engineer if I spent a lot of time and energy training myself in the field, even if by some miracle I could be a better satellite engineer than at least some of the current satellite engineers, I probably could not be better by a sufficiently large margin to justify giving up what I already do and am already good at. So, the satellite engineer and I are probably both doing what we should be doing, that is, what enables each of us to contribute the value to society that we respectively can.

Just as business benefits from division of labor, then, so does knowledge. It is rational for each of us to specialize because it enables us to increase the output of whatever we work on. I could not write this book if I also had to make the word processing software I am using or if I also had to generate the electricity I am using; and if software engineers or electricity plant workers had to develop the disciplines of philosophy and economics on their own, they would not be able to make our computers work. This is true for knowledge as well. The geneticist relies on the chemist, the chemist relies on the physicist, the medical researcher relies on the biologist, the engineer relies on the mathematician, and so on. If any of them had to be experts in all those fields, they would not have any time or opportunity to make the contributions to their own fields that they are actually capable of. But they *can* make those contributions if others are taking care of the other things for them. Thus, everyone benefits from division of labor – yet another claim of economics we will explore.

There is a lot that economists do not know, but there are some things that economists have been able to figure out. Because so much of our lives depends on economic policy and because so many of the decisions we make, both individually and in the public realm, have economic implications, we should pay attention to what economics can teach us. It is a discipline, a field of inquiry, with its own specialties and subspecialties, and no one could – or should: remember rational ignorance! – become a master of all of it. But some of the principles of economics would, if more widely understood and appreciated, help us make not only better decisions in our own individual lives but also make better social and public decisions about laws, regulations, and policies. If only those of us who are not trained economists could find a ready way to learn some core economic fundamentals without having to go back to school and major in economics.

## Plan of the Work

That is where this book aims to help. It presents several principles of economics, focusing on areas where their insights can be expressed without technical jargon and where exposure of the fallacies can enable significant improvement in both individual and public life. So, it largely avoids esoteric topics, specialized discussions, and – you may be relieved to learn – where math is required. I will argue that there is a series of economic fallacies that hinder our thought and, unfortunately, inform our policy. Getting rid of them will enable far better decision-making in our individual lives, as well as far better public policy. It may also help us to focus our energies on areas where we can contribute the most value to ourselves and to society – and to have public institutions that reward us for doing so.

The book has seven main chapters, each addressing a commonly held economic belief or set of beliefs that I will argue are in fact fallacies. Here is the list.

Chapter 1 addresses the "Wealth Is Zero-Sum Fallacy," or the idea that the only way a person or group can get wealthy is by impoverishing some other person or group. In fact, in a market-based commercial society, wealth is positive-sum, meaning that both (or all) parties to mutually voluntary transactions benefit. By contrast, gaining wealth through what we will call *extraction* is indeed zero-sum, or even negative-sum; gaining wealth through what we will call *cooperation*, however, is positive-sum and win–win. This chapter also addresses the worry that the rich in a commercial society might hoard, thereby preventing others from benefiting as much as they otherwise might. At the end of the book, I provide a list of references and suggestions for further reading for Chapter 1 and all the other chapters.

Chapter 2 addresses the "Good Is Good Enough Fallacy," or the idea that if some proposed course of action (or allocation of resources) would, or at least could, lead to a good outcome, then we should therefore do it. In fact, examining the potential good that would ensue from a proposal is only part of the question; the other part is what we would have to give up to do it. Because all actions and allocations involve tradeoffs, we need to estimate the opportunity cost and compare it to the prospective benefit, and then consider moving forward only if the likely proposed benefit outweighs all likely costs, including opportunity cost. That is easier said than done, however, and the implications of considering opportunity cost are surprisingly far-reaching.

Chapter 3 addresses what we will call the "Great Mind Fallacy," or the idea that there is some person or group that possesses the relevant knowledge to know how others should allocate their scarce time or treasure – and is incentivized and motivated to get it right. In fact, third parties, even expert third parties, are typically not in possession of the detailed personal knowledge required to know how other individuals should allocate their resources. They may know averages or trends based on aggregated data, but because they do not know you or your situation, they typically cannot know what is right for you to do. They are also often incentivized in ways that do not motivate them to get things right.

Chapter 4 addresses the "Progress Is Inevitable Fallacy," or the idea that innovation, increasing wealth, and economic progress are natural or inevitable. In fact, economic progress has occurred only very recently in human history, and it is dependent on fairly specific – and historically rare – cultural norms and institutional arrangements. It is thus fragile and delicate, and could easily be slowed, stopped, or even reversed.

Chapter 5 addresses the "Economics Is Amoral Fallacy," or the idea that economic calculation is cold and inhumane, proceeding without regard for human beings or the real welfare and interests of those whose lives it affects. In fact, the principles of economic reasoning not only incorporate real human interests and values, including moral values, but they might even be capable of illuminating the best ways to address and realize them.