# SEVEN DEADLY ECONOMIC SINS

You have heard of the Seven Deadly Sins: pride, greed, lust, envy, gluttony, wrath, and sloth. Each is a natural human weakness that impedes happiness. In addition to these vices, however, there are economic sins as well. And they, too, wreak havoc on our lives and in society. They can seem intuitively compelling, yet they lead to waste, loss, and forgone prosperity. In this thoughtful and compelling book, James Otteson tells the story of seven central economic fallacies, explaining why they are fallacies, why believing in them leads to mistakes and loss, and how exorcizing them from our thinking can help us avoid costly errors and enable us to live in peace and prosperity.

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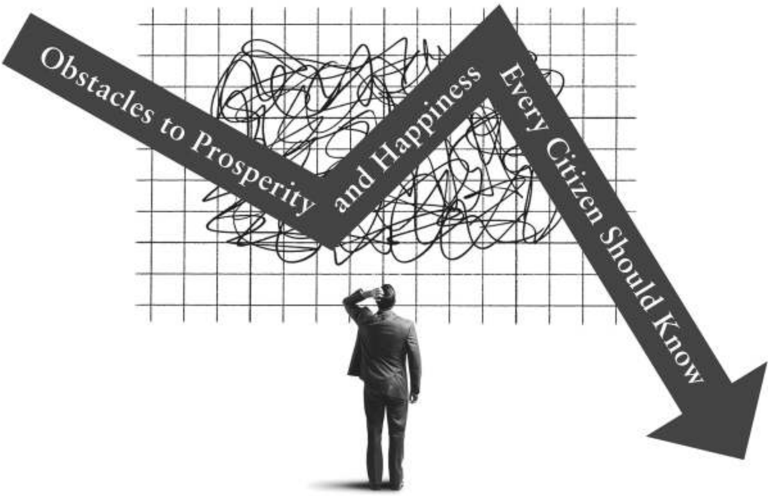


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*To Victoria Ellen, as she starts the next chapter of her life*

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# PREFACE

An old saying has it that if you lined up all the economists in the world end to end, they still wouldn't reach a conclusion.[1] There are lots of other jokes about economics in the same vein. President Harry Truman allegedly once said that he was in search of a one-handed economist, so that he would not have to hear from yet another economist: "on the other hand . . ." The truth is that economists disagree about a lot. Even Nobel laureate economists find themselves on different sides of all sorts of issues – on everything from inflation and deflation, the money supply, interest rates, and labor and health and environmental policy, to economic development, human motivation, and even rationality. They disagree on the importance and proper role of economic models, on whether their discipline is "value free," even on whether their discipline is a true or proper science.

On the other hand (pardon the joke), there are also some things that many economists agree on. What is curious about this latter fact is that the points of agreement seem to play so small a role both in political policy and in the wider public consciousness. People seem to be aware that economists disagree, that economists vote for different political parties, and that economists are not able to predict what the

1 This is attributed, perhaps apocryphally, to George Bernard Shaw. See Rodrik 2015, 151.

market will do, which businesses will succeed, what the interest rates will be, or when the next recession will be – or what to do about it when it occurs. This gives people plenty of reason to be wary of what economists say and of economic expertise in general.

It is also true that if one reads the main works of some of the most prominent figures in the history of economics – Adam Smith, for example, or David Ricardo, John Stuart Mill, Karl Marx, or John Maynard Keynes – it quickly becomes clear that some of the most important aspects of their work bear little resemblance to the work of most contemporary economists. For one thing, where's the math? If you look at Smith's *Wealth of Nations*, or at Mill's *Principles of Political Economy*, Marx's *Capital*, or Keynes's *General Theory*, you will not find even one regression! The highly technical mathematical instruments economists employ today did not begin to appear until the late nineteenth century; they gained ground throughout the twentieth and today have all but crowded out anything that does not use them. Pick up a professional economics journal today and dip into it anywhere: chances are you will find mathematical formulas that only someone with extensive training can even read, let alone make sense of – and let alone apply to the real world in some beneficial or enlightening way. Unless one is oneself a trained economist, then, one could be forgiven not only for not reading most of what economists write, but for wondering whether, if they are so divided even among themselves, why anyone should bother listening to them.

And yet there are some basic principles that many economists agree upon. What's more, some of these fundamentals can not only be readily expressed and understood but would benefit humanity if more widely appreciated. That is what this book aims to explore. Each chapter focuses on an important principle of economics that, if more widely understood and implemented, would improve human life. In each case, however, the economic principles tend to be at odds with general and widespread impressions that non-economists have. Thus, I have framed each chapter in terms of what I will argue is an economic fallacy whose continued wide currency in the public's consciousness has negative effects.

Naturally, not all economists will agree with all the conclusions of this book. But its argument begins with widely accepted economic principles and builds on them in what I believe are plausible – I hope even compelling – directions. For full disclosure, I myself am a philosopher by training, not an economist. Most of my work falls into the field of "political economy," the eighteenth-century term for an integration of moral (or political) philosophy with the principles of economic reasoning and economic policymaking. I have studied and written extensively about Adam Smith (1723–1790), for example, as well as the history of economic thought. So, I am a student of economics who has come to appreciate the discipline by studying its history and the thought of its prominent figures. But that means that I am among what Nobel laureate economist Friedrich Hayek (1899–1992) called "secondhand dealers in ideas": I rely on the ideas of experts who have technical training to formulate my own nontechnical ideas. We are all, however, secondhand dealers in others' ideas to some (perhaps uncomfortably large) extent, since little of what we believe did we ourselves discover or demonstrate. My hope is that because my study of economics and the appreciation I have developed for its insights have come from the perspective of a humanities-trained moral philosopher, I can convey its central principles in a way that an educated non-economist can understand and appreciate.

Like politics, economics is one of those fields which everyone not only has an opinion about but often a very strong opinion – whether they have any training in economics or not. Consider the current debates about whether socialism or capitalism should be our system of economics.[2] Or about whether the legal minimum wage should be raised, whether billionaires are bad for the economy, whether we should place tariffs on Chinese goods, whether immigration should be open or trade should be free, whether healthcare should be nationalized, whether we should raise taxes or reduce our national debt, and so on: people often have very strong opinions about such matters – and yet most people do not know what economics has to say about the likely effects such policies would have. But one of the primary intellectual virtues is to know the limits of one's knowledge, and to proportion one's beliefs (and the strengths of one's beliefs) accordingly. These issues make an enormous difference in the lives of actual human beings, so we need to get them right. If economics can help – and on many issues, it can – then we should learn from it what we can.

The situation is perhaps analogous to medicine. About many issues – how to treat specific diseases, for

[2] For my own contribution to this discussion, see Otteson 2014.

example, whether one drug or another (or none) should be used, how to treat psychiatric illnesses (or even what counts as a psychiatric illness), what the causes are of various ailments and diseases, and so on – doctors will have differing opinions. And medical journals also frequently contain analyses that are difficult for laypersons to understand, let alone see the practical implications of. But the proper response to this variety of medical opinion and relative uncertainty about the import of medical experiments is emphatically not to forgo paying attention to doctors or to deny that there is such a thing as medical expertise. Instead, it is to seek a second opinion (or a third), and to look for areas of overlapping consensus. And, of course, the fact that medical professionals disagree about some things does not mean that they disagree about everything. On many issues – especially concerning the more routine and everyday ailments people face – there is indeed consensus and the paths of treatment are clear.

The same, I contend, holds for economics. Despite economists' disagreements about many issues, there are nevertheless some areas of overlapping consensus. There are some basic principles of economic reasoning that most economists agree on. This book will lay out several of them, including what I believe are the most important for improving human life. The discussion is thus addressed to the educated reader who is conscientious about wanting to understand how the world works and wants to make a good-faith effort to assess policy proposals and to vote responsibly and well, but who has not (yet) had the opportunity to explore the principles of economic reasoning to see what they hold and how they might help. Though the arguments in the following chapters are based on widely accepted principles of economics, in some cases they lead in perhaps surprising, even controversial, directions. I hope to convince you of the truth of what I will claim, but even if you end up disagreeing I hope you will develop an appreciation for the reasoning behind these economic claims, for how the claims are supported, and for what would be required to refute or deny them in good faith.

The discussion of what I will argue are economic fallacies in what follows is also mixed with a fair bit of moral philosophy. Economics makes claims about human behavior and about human motivation, and human action is informed not merely by mechanical operations but by normative concerns regarding value. We are not robotic self-interested utility maximizers; we are also moral beings who make choices in part based on ethical conceptions of the right and the good. As Plato (428–348 BC) argued, our capacity to choose – we can say yes to an opportunity, but we can also say no – entails that we are accountable beings who are capable of providing reasons for our actions, thus morally responsible for our actions, and thus rightly held to account for them. A discussion of economic principles therefore must itself take account of our moral natures as free and responsible creatures who are capable of considering not only our own interests but those of others as well. The discipline of economics provides a powerful set of analytical tools to understand how human beings behave, but also how they should behave given their goals. The discussions that follow are aimed at helping us achieve our ends not merely as biological, physiological, or psychological, but as moral creatures who have not only ends but moral ends.

As you will soon see, my discussion is inspired by Adam Smith, who is widely considered the father of the discipline of economics but who was also, and primarily, a moral philosopher: he was the author of not only the now more famous 1776 *Wealth of Nations*, but also of an earlier book, the 1759 *Theory of Moral Sentiments*. As Smith's pioneering example demonstrates, an economics worth considering must integrate with our natures and values as moral beings. Though I do not agree with all Smith's conclusions, I aspire to model my work after his example of joining moral philosophy with economic reasoning, and of expressing economic principles in ways that any educated reader can understand and even appreciate.

If we want to figure out how to make good decisions in our own lives or how to improve society, we need to understand how economics can help. In many ways, it can. If you find, however, that you are, or were, an adherent to any of the (alleged) fallacies discussed in the following chapters, or if any of the claims made herein seem to you to fall outside the "Overton window" of commonly held acceptable opinion, I ask only that you hear me out. We may still end up disagreeing, but perhaps we might be in a position to have a more productive conversation. Whatever economic policies we end up supporting, my hope is that they will be informed by a better understanding of what economics might be able to contribute, ultimately, to a just, humane, and prosperous society.