

RECOMMENDED READING

ECONOMICS AS RELIGION: FROM SAMUELSON TO CHICAGO AND BEYOND

by Robert H. Nelson (Pennsylvania State University Press, 2001, 378 pages.)

as reviewed by Buzz McCoy, CRE



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The university system in America was originally designed to train Protestant ministers. Religion was a dominant force in our culture, and it encouraged us to express our altruistic tendencies. In the late nineteenth century new universities such as Cornell, Johns Hopkins and the University of Chicago were created to supply professional experts with technical skills, and the older universities were retooled to educate the corps of professional experts. In an increasingly secular society, altruism was replaced by self-interest.

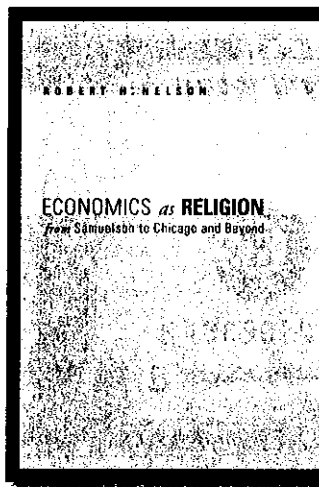
Robert H. Nelson's book, *Economics as Religion*, is a history of modern economic theory, presented as a new form of secular religion in our society. His thesis is that the economics profession constitutes the new priestly class in the modern, materialistic, scientific world. Nelson, who has wide government experience as well as being a professor of public policy at the University of Maryland,

states that in medieval Europe Christianity was the one universal government. It had a central bureaucracy in Rome, an organization with priests and churches in every village and its own universal language, Latin. The Church oversaw birth, education,

marriage, all professional activity, sickness, old age, death, burial and society's moral character. The Church did all the things that the State does today.

He argues that economics has replaced the Church in modern society, with its emphasis on the self-interested behavior of the scientific "economic man." Such a man, he asserts, is best described by the late

M. I. T. professor Paul Samuelson in his widely used textbook *Economics*. The scientific school of economics is based on the utter rationality of man. Utilitarian models can be constructed to analyze human behavior. Examples might include the use econometric models to ration the number of kidney dialysis machines. Not everyone in need will receive the benefits of a machine, but the number produced will be "optimized" from



society's point of view. For purposes of distributing dollars raised in support of September 11 victims' families, the value of a human life can be readily computed by analyzing the number of years of expected remaining life, multiplying by the expected annual earnings power and discounting the income stream at an appropriate interest rate. Such "rational" analysis ignores the equality of pain and suffering and such distinctions as number of dependents.

Nelson contrasts what he terms the "Samuelson approach" to that of the school of economics founded at the University of Chicago with such Nobel laureates as Milton Friedman, George Stigler and Gary Becker. Their mentor was Frank Knight, who doubted there could be any possibility of the scientific management of society through the manipulation of self-interest. He felt human reason was frail, often corrupted by the baser elements in human nature. Knight felt the economic problem in society was a religious problem. The defense of freedom must rest upon an adequate moral and philosophical foundation. Human beings must be grounded in some cultural system, historically including religion as a main source of group identity. The market provides a place where people of different creeds can come together for voluntary exchange and mutual benefit.

Moreover, self-interest cannot dominate secular culture, as a culture of trust is an essential element in maintaining a successful market economic system. Nelson quotes Nobel laureate Kenneth Arrow as stating that the working of the economic system depends on the existence of invisible institutions--the implicit acceptance in society of certain principles of ethics and morality. These agreements constitute implicit mutual contracts, often unconscious, to supply mutual benefits. Without the existence of social bonds grounded in shared ethical principles, the functioning of the economy would be grievously impaired. In a trust-based economic system one is spared the costs of rule writers, enforcers, interpreters and the like

The U. S. lives out of a fundamentally trust-based system. The freeways work efficiently at speeds of 65 miles an hour. The person who cuts us off is the exception, not the rule. Stocks and bonds trade with a three-day settlement date. Prices continue to fluctuate, and on the settlement date, someone has made an extra profit and the other party a loss. Yet,

the settlement almost always takes place. When we feel the basic underlying trust has been broken, we react with extreme urgency, sending those guilty of possible insider trading violations to prison and taking down a major accounting firm almost overnight. An ethical system that promotes trust can be an immensely valuable economic asset for a society. Traditions of hard work, honesty and integrity lower the costs of transacting business.

The notion of trust as a social commitment rather than an act of individual self-interest inevitably leads to the subject of religion as a possible input in the formation of social beliefs that could sustain trust. The modern economic notions of "rational choice" and "efficient markets" ignore these inputs. Nelson concludes that perhaps economists committed to promoting a more efficient economic system may also have to think about how they might act to promote a more "efficient" religion. The kind of religion most likely to promote economic development should encourage the expression of individual self-interest while at the same time muting tendencies toward increased corruption and other "illicit" actions that have the potential to undermine the efficient working of the market system.

Nelson provides a large service by putting modern economic theory in conversation with traditional theological concepts. His topic is provocative and timely. The more one thinks about the function of market economics in modern society, the stronger the case gets for reintegrating it with its traditional religious antecedents. Society's strong reaction to the scandals of Enron and others is illustrative of the strong religious values imbedded in our culture.

ABOUT THE AUTHOR

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