

## THE CONSTITUTION OF ECONOMIC EXPERTISE: SOCIAL SCIENCE IN THE PUBLIC SQUARE, PAST AND PRESENT

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*Abstract:* Why are the institutions that constitute scholarly economics the way they are? What determines the kinds of questions economists ask and the answers they find convincing? This article answers these questions by positing that within the modern economics profession, economic ideas compete on margins unrelated to the pursuit of truth. The adaptive value of certain kinds of economics can explain the prevalence of the economics that is currently practiced. The article questions the claim that modern economics has “passed the market test.” Ultimately, the mutual network between Academy and State supports economics that promote the managerial-administrative state and discourages economics that do not. The result of this unfortunate dynamic is the kind of skewed economic practice that has frequently plagued the discipline.

*Keywords:* Academy, bureaucracy, economics profession, experts, managerial state, New England tradition, Progressivism

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## I. INTRODUCTION

*“If we are to safeguard the reputation of science, and to prevent the arrogation of knowledge based on a superficial similarity of procedure with that of the physical sciences, much effort will have to be directed toward debunking such arrogations, some of which have by now become the vested interests of established university departments.”*

—Friedrich A. Hayek<sup>2</sup>

*“But the progressives command the historian’s attention, because they prevailed. It was the progressives who fashioned the new sciences of society, founded the modern American university, invented the think tank, and created the American administrative state, institutions still at the center of American public life and still defined by the progressive values that formed and instructed them.”*

—Thomas C. Leonard<sup>3</sup>

In this paper, I explore how economics is constituted as a scholarly discipline: what questions economists ask, why they ask them, and what kinds of answers they find satisfactory. The institutions within which economists do economics, particularly the research university and the organs of government that hire economists to design and implement public policy, must occupy center stage in such an exploration. The governance structures of Academy and State—I capitalize to indicate these words will be used as shorthand for the networks of organizations that comprise the general categories—give shape to the questions and answers in which economists deal as well as allocate professional goods (employment, funding, prestige, awards, etc.) in accordance with those questions and answers. My thesis is that a historically informed perspective on the institutions of economic scholarship gives us grounds to suspect that economists’ theories, especially those concerning the

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<sup>2</sup> Friedrich A. Hayek, “The Pretense of Knowledge,” *American Economic Review* 79:6 ([1974] 1989): 6.

<sup>3</sup> Thomas C. Leonard, *Illiberal Reformers: Race, Eugenics, and American Economics in the Progressive Era* (Princeton: Princeton University Press, 2016), xiii.

relationship between the government and the economy, are adaptively successful for reasons other than truth.

This is primarily a paper about the historical development of the economics profession and the institutions within which economists practice their trade. I carry forward Tollison's<sup>4</sup> project of "putting economists in the model," with heavy emphasis on institutional detail. A related literature, drawn from several literatures across the social sciences, focuses on scientific experts in democratic societies.<sup>5</sup> My goal is to explore the place of economics in the public square and how the interaction between scientific and political authority impinges on their respective institutions.

To motivate my study, consider the following puzzles of economic practice.

The first is perhaps the most confusing. Economists, in their scientific discourse, regularly engage in practices that rest on a shaky theoretical foundation and perhaps are inconsistent with the discipline's basic theories. In macroeconomics, the most striking example is the use of national income statistics to study business cycles; in microeconomics, the range of policies proposed to correct market failures. In both cases, economists' techniques run afoul of more basic theoretical considerations. National income statistics can only provide reliable information about aggregate production if the prices used to construct the statistics are

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<sup>4</sup> Robert D. Tollison, "Economists as the Subject of Economic Inquiry," *Southern Economic Journal* 52:4 (1986): 909–22.

<sup>5</sup> For example, Sheila Jasanoff, *The Fifth Branch: Science Advisers as Policymakers* (Cambridge: Harvard University Press, 1990); Philip Kitcher, *Science, Truth, and Democracy*, Oxford Studies in the Philosophy of Science (Oxford: Oxford University Press, 2001); Henry S. Richardson, *Democratic Autonomy: Public Reasoning About the Ends of Policy*, Oxford Political Theory (Oxford: Oxford University Press, 2002); Mark B. Brown, *Science in Democracy: Expertise, Institutions, and Representation* (Cambridge: MIT Press, 2009); Roger Koppl, *Expert Failure* (Cambridge: Cambridge University Press, 2018); David M. Levy and Sandra J. Peart, *Escape from Democracy: The Role of Experts and the Public in Economic Policy* (New York: Cambridge University Press, 2016).

competitive equilibrium prices.<sup>6</sup> But if the prices are competitive equilibrium prices, then there can be no gap between actual and potential output. At the micro level, correcting market failures, such as those caused by external economies, presumes the theorist and public policy practitioner have knowledge about the efficient equilibrium and how to reach it. But this knowledge is generated by the market process itself; it cannot be known apart from the operation of market forces, from which cost and benefit curves, both private and social, acquire their content.<sup>7</sup> This

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<sup>6</sup> For example, consider how macroeconomists construct GDP data. To simplify a very complex process, these data are constructed by adding up the final-market prices for all goods and services produced and sold in a given year. Variations in GDP from its trend can be evidence of an undesirable bust. The problem is ascertaining whether a change in the value of GDP does in fact indicate something meaningful. If an economy produces 100,000 more apples than last year but 200,000 fewer oranges than last year, is that evidence that the economy is producing below its potential output level? The only way we can infer that the economy is producing more or less wealth—and wealth, not the goods and services in themselves, is ultimately what economists care about—is to assume the observed market prices from which GDP is constructed are taken from a situation of economy-wide *microeconomic* equilibrium. If this is the case, then by the necessary conditions of general equilibrium, everyone in the economy agrees about the marginal value of a dollar’s worth of output in any given line of production, which means everyone agrees on whether more apples and fewer oranges is wealth enhancing on net. But if this is the case, then there is no “overproduction” (alternatively, underconsumption) at all.

<sup>7</sup> The only way to know the costs and benefits of particular activities is for the market mechanism to generate that knowledge through the decentralized exchange activity of the traders who comprise it. Tradeoffs are revealed in the course of exchange. But in the case of any particular market failure, how is the economist to know the size of the gains yet to be captured due to the market failure, as compared to the costs of implementing the public policy? If the latter exceed the former, then correcting the market failure would actually make people *worse off* in their own estimation. Finally, how can the economist know how big to make the given public policy correction? For example, if there are external diseconomies caused by pollution, how big ought the tax on the polluter be? Given economists’ commitment to value subjectivity, the only way for the “objective” data to exist that is necessary to answer these questions is to assume that the economy is in competitive equilibrium in every market, except for the one market where the market failure exists. This implies unanimous intersubjective agreement as to the marginal value of resources in consumption and production across the economy; it is this intersubjectivity that enables

tension obviously has relevance for the validity of, at minimum, all policy work involving economics. But economists only rarely work on possible resolutions.

To this major puzzle could be added a series of minor puzzles. Consider the popular narrative and massive public policy responses surrounding the 2007-8 financial crisis. Although there is a literature by respected economists suggesting the financial crisis was caused by some combination of reckless monetary policy and poor regulation that incentivized large financial organizations to take larger risks than they otherwise would have,<sup>8</sup> the most prevalent story is one of market malfeasance, the failure of “neoliberal” economics and “cowboy capitalism,” and the necessity of significantly increased public oversight of the financial sector. The 2009 stimulus package (the American Recovery and Reinvestment Act) and the creation of the Financial Stability Oversight Council suggest that the latter narrative has been disproportionately important in determining the course of public policy following the crisis. If the economics profession is reasonably divided—more economists than not think the problem was with markets, rather than government, but the consensus is not overwhelming—why is it that the policy response, of which economists played a part, is so one-sided?

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economists to specify concretely *social* costs and benefits. To say this condition is unlikely to prevail in real economies is an understatement. For a more rigorous argument, see Art Carden, “Economic Calculation in the Environmentalist Commonwealth,” *Quarterly Journal of Austrian Economics* 16:1 (2013): 27-44.

<sup>8</sup> For example, Claudio Borio and Piti Disyatat, “Global Imbalances and the Financial Crisis: Link or No Link?” BIS Working Papers No. 346, 2011, <http://www.bis.org/publ/work346.pdf>; Guillermo Calvo, “Puzzling over the Anatomy of Crises: Liquidity and the Veil of Finance,” IMES Discussion Paper Series 13-E-09, 2013, <http://www.columbia.edu/~gc2286/documents/CalvoBOJpaperMay2013REVJune282013.pdf>; John B. Taylor, *Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis* (Stanford: Hoover Institution Press, 2009); Nicolas Cachanosky and Alexander W. Salter, “The View from Vienna: An Analysis of the Renewed Interest in the Mises-Hayek Theory of the Business Cycle,” *Review of Austrian Economics* 30:2 (2017):169-192, and references therein.

To be clear, this is not a question of why the economists in favor of the managerial-administrative state are prevailing over their laissez-faire counterparts. The economics profession is currently often a source of frustration not only for those in the Austrian tradition, but for those in the Marxist, post-Keynesian, feminist, or other heterodox traditions.<sup>9</sup> The tools, techniques, and other means of constructing the policy responses to perceived economic crises all rely on a standard set of methodological assumptions that shut out economists with more radical opinions on how to do economics and how the knowledge gained from doing economics should be applied. According to methodological orthodoxy, whether economists practice their craft in the Academy or the State (or both), unless they are modeling constrained optimization or fitting a line through data, their peers will be skeptical that they are doing “real” economics. Many scholars<sup>10</sup> over the decades have pointed out that the methodological requirements economists have adopted to assure themselves that economics meets the requirements of science are questionable in themselves and selectively applied. Furthermore, they are often nonbinding, in the sense that when economists speak to each other and, occasionally, change each other’s minds, it is for reasons other than

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<sup>9</sup> In the interests of full disclosure, I identify (positively) with the Austrian and Virginia schools of political economy, and (normatively) with classical liberalism. But my arguments are not a critique of mainstream economics from either of those perspectives. The point I want to make concerning the adaptive value of some economic theories over others should be concerning to *all* social and policy scientists.

<sup>10</sup> For example, Peter J. Boettke, “Where Did Economics Go Wrong? Modern Economics as a Flight from Reality,” *Critical Review* 11 (1997); Peter J. Boettke, Christopher J. Coyne, and Peter T. Leeson, “High Priests and Lowly Philosophers: The Battle for the Soul of Economics,” *Case Western Reserve Law Review* 56:3 (2006): 551–68; Kenneth E. Boulding, “After Samuelson, Who Needs Adam Smith?” *History of Political Economy* 3:1 (1971): 225–37; David Colander, *The Making of an Economist, Redux* (Princeton University Press, 2007); Philip Mirowski, *More Heat than Light: Economics as Social Physics, Physics as Nature’s Economics* (New York: Cambridge University Press, 1989); Robert H. Nelson, *Economics as Religion: From Samuelson to Chicago and Beyond* (University Park: The Pennsylvania State University Press, 2001).

the scientific nature of their claims as embodied in their theoretical models or careful empirical explorations. Because the methodological mainstream, of which short-run macroeconomics and market-failure microeconomics are a part, is incapable of living up to its self-imposed standards of scientific rigor, the merits of mainstream methodology cannot be the reason for the marginalization of alternative perspectives.

But perhaps there is some criterion other than scientific Truth that serves as a filter, promoting some kinds of economics while discouraging others. The question is, *Where does the filter come from, if it even exists?* Given that the economics mainstream spans the “intellectual range from M to N,”<sup>11</sup> can we find something about the economics profession at the institutional level that would explain the previously mentioned puzzles?

I believe there is. The puzzles of economics’ practices containing inconsistencies with their own theories, the one-sided public policy response to economic crises, and the methodological two-step are not separate puzzles, but merely different features that arise from the rules, conventions, and feedback loops that govern the economics profession within and across Academy and State. Unfortunately, since this is what I purport to discuss, the title “The Constitution of Economic Policy” has already been used by a famous economist,<sup>12</sup> although I mean it in quite a different sense than the original author. In political economy, “constitution” refers to the framework of rules governing a specific social sphere. This framework and its historical development, for economists insofar as they act as experts, is precisely what my paper is about. I argue that the above puzzles have deep historical roots and are inseparable from the development of the American research university, the professionalization of the economics discipline in the late nineteenth century, and the role of economists in shaping the Progressive movement,

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<sup>11</sup> Donald McCloskey, “Kelly Green Golf Shoes and the Intellectual Range from M to N,” *Eastern Economic Journal* 21:3 (1995): 411.

<sup>12</sup> James Buchanan, “The Constitution of Economic Policy,” *American Economic Review* 77:3 (1987): 243–50.

including its successor ideologies from the Great Depression to the aftermath of the Second World War. Those historical trends and forces explain why the economics profession is the way it is, which in turn explains the puzzles.

My contribution is this: linking the revolution in economics that began during the Great Depression and culminated in the early days of the Cold War with deeper historical forces that set the background against which activists and social scientists built their institutions and modified existing ones. To my knowledge, no one has yet directly linked modern managerial-administrative economics with the New England intellectual tradition by way of the research university, the social gospel, and the Progressive movement. Of course, many<sup>13</sup> have recognized the connection between modern economics and the Progressive movement. But that link has historical antecedents in intellectual traditions characterized by a religious or quasi-religious eschatology.<sup>14</sup> We cannot understand modern economics, and the puzzles it presents, without appreciating the feedback loops promoting certain scholarly ventures that themselves are the "extended present"<sup>15</sup> of the profession's history.

I organize the remainder of the paper as follows: In section 2, I explore the rise of the research university in the United States and the religious conflicts that often accompanied changes in higher education. In section 3, I link these religious forces to the social gospel, the Progressive movement, and the professionalization of economics as a scholarly discipline. In section 4, I show how the alliance between Progressivism and the social gospel weakened, leaving economists with a secularized mission within the university to develop, and sometimes wield, the tools

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<sup>13</sup> For example, Koppl, *Expert Failure*; Levy and Peart, *Escape from Democracy*; Leonard, *Illiberal Reformers*, and the references therein. Also relevant is Murray Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn: Ludwig von Mises Institute, 2017).

<sup>14</sup> Nelson, *Economics as Religion*.

<sup>15</sup> The term is Boulding's ("After Samuelson, Who Needs Adam Smith?"), though I am using it in a different sense.



that would guide the managerial-administrative state. In section 5, I argue that these historical processes help us understand the positive feedback loop between the economics of statecraft and statecraft-oriented economics: modern economics, because of the entanglement of Academy and State, outcompetes other, more radical paradigms (both on the left and right). In section 6, I conclude by discussing what my argument does *not* imply, what I find most troubling about the current state of affairs, and what if anything should be done about it. In building my arguments, I draw on several literatures: the role of the economics profession,<sup>16</sup> the

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<sup>16</sup> Boettke, "Where Did Economics Go Wrong? Modern Economics as a Flight from Reality"; Peter J. Boettke, "Don't Be a 'Jibbering Idiot': Economic Principles and the Properly Trained Economist," *Journal of Private Enterprise* 32, no. 3 (2017): 9–15; Peter J. Boettke, Christopher J. Coyne, and Peter T. Leeson, "High Priests and Lowly Philosophers: The Battle for the Soul of Economics"; Peter J. Boettke, Christopher J. Coyne, and Peter T. Leeson, "Earw(h)ig: I Can't Hear You Because Your Ideas Are Old," *Cambridge Journal of Economics* 38 (2014): 531–44; Peter J. Boettke and Kyle W. O'Donnell, "The Social Responsibility of Economists," in *Oxford Handbook of Professional Economic Ethics*, edited by George DeMartino and Deirdre McCloskey (New York: Oxford University Press, 2016); Kenneth E. Boulding, "Economics as a Moral Science," *American Economic Review* 59:1 (1969): 1–12; Boulding, "After Samuelson, Who Needs Adam Smith?"; Samuel Bowles, "Economists as Servants of Power," *American Economic Review* 64:2 (1974): 129–32; William Butos and Peter J. Boettke, "Kirznerian Entrepreneurship and the Economics of Science," *Journal des Economistes et des Etudes Humaines* 12:1 (2002): 119–30; Malcom Campbell-Verduyn, "Moral Economese of Scale? Discursive Change and the Varying Authority of Economists since the Global Financial Crisis" (paper prepared for the Canadian Political Science Association's annual conference, May 27–29, 2014); A. W. Coats, "The First Two Decades of the American Economic Association," *American Economic Review* 50 (1960); A. W. Coats, "The American Economics Association and the Economics Profession," *Journal of Economic Literature* 23 (1985); Colander, *The Making of an Economist, Redux*; Christopher J. Coyne and Peter J. Boettke, "The Role of the Economist in Economic Development," *Quarterly Journal of Austrian Economics* 9, no. 2 (2006): 47–68; Joseph Dorfman, *The Economic Mind in American Civilization*, vols. 4 and 5, 1918–1933 (New York: Viking, 1959); Till Duppe and E. Roy Weintraub, "Siting the New Economic Science: The Cowles Commission's Activity Analysis Conference of June 1949," *Science in Context* (forthcoming); Marion Fourcade, *Economists and Societies: Discipline and Profession in the United States, Britain, and France, 1890's to 1990's* (Princeton: Princeton University Press, 2009); Marion Fourcade and Rakesh Khurana, "From Social Control to Financial Economics: The Linked Ecologies of Economics and Business in Twentieth Century

relationship between the professionalization of the social sciences and the growth of the American university,<sup>17</sup> and Progressivism’s antecedents,

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America,” *Theory and Society* 42 (2013): 121–59; Marion Fourcade, Etienne Ollion, and Yann Algan, “The Superiority of Economists,” *Journal of Economic Perspectives* 29, no. 1 (2015): 89–113; Stephen Horwitz and Peter J. Boettke, “The Limits of Economic Expertise: Prophets, Engineers, and the State in the History of Development Economics,” *History of Political Economy* 37 (2006): 10–39; Daniel B. Klein and Charlotta Stern, “Is There a Free-Market Economist in the House? The Policy Views of American Economic Association Members,” *American Journal of Economics and Sociology* 66:2 (2007): 309–34; Mitchell Langbert, Anthony J. Quain, and Daniel B. Klein, “Faculty Voter Registration in Economics, History, Journalism, Law, and Psychology,” *Econ Journal Watch* 13:3 (2016): 422–51; David M. Levy and Sandra J. Peart, *How the Dismal Science Got Its Name: Classical Economics and the Ur-Text of Racial Politics* (Ann Arbor: University of Michigan Press, 2002); David M. Levy and Sandra J. Peart, *The “Vanity of the Philosopher”: From Equality to Hierarchy in Post-Classical Economics* (Ann Arbor: University of Michigan Press, 2005); Levy and Peart, *Escape from Democracy*; Timothy Mitchell, “Economists and the Economy in the Twentieth Century,” in *The Politics of Method in the Human Sciences*, edited by George Steinmetz (Durham: Duke University Press, 2005); Mirowski, *More Heat than Light*; Philip Mirowski, “How Positivism Made a Pact with the Postwar Social Sciences in the United States,” in *The Politics of Method in the Human Sciences*, edited by George Steinmetz (Durham: Duke University Press, 2005); Nelson, *Economics as Religion*; Dani Rodrik, “When Ideas Trump Interests: Preferences, Worldviews, and Policy Innovations,” *Journal of Economic Perspectives* 28:1 (2014): 189–208; Murray N. Rothbard, “The Politics of Political Economists: Comment,” *Quarterly Journal of Economics* 74, no. 4: 659–65; Rothbard, *The Progressive Era*; George J. Stigler, “The Economist and the State,” *American Economic Review* 55:1 (1965): 1–18; George J. Stigler, “The Influence of Events and Policies on Economic Theory,” *American Economic Review* 50:2 (1960): 36–45; George J. Stigler, “The Politics of Political Economists,” *Quarterly Journal of Economics* 73:4 (1959): 522–32; Luigi Zingales, “Preventing Economists’ Capture,” in *Preventing Regulatory Capture: Special Interest Influence and How to Limit It* (Cambridge: Cambridge University Press, 2013); Jelveh Zubin, Bruce Kogut, and Suresh Naidu, “Political Language in Economics,” Columbia Business School Research Paper No. 14–57, 2015.

<sup>17</sup> Mary O. Furner, *Advocacy and Objectivity: A Crisis in the Professionalization of American Social Science, 1865–1905* (Lexington: University of Kentucky Press, 1967); Thomas L. Haskell, *The Emergence of Professional Social Science: The American Social Science Association and the Nineteenth-Century Crisis of Authority* (Urbana: University of Illinois Press, 1977); George M. Marsden, *The Soul of the American University: From Protestant Establishment to Established Nonbelief* (New York: Oxford University Press, 1994); Dorothy Ross, *The Origins of American Social Science* (New York: Cambridge University Press, 1991); R. J. Rushdoony, *The Messianic Character of American Higher Education* (Vallecito: Ross House Books, 1963).

constituent beliefs, and effect on American institutions.<sup>18</sup> I invite my readers to consult the relevant sources, both for their own edification and to check my claims.

## II. THE BIRTH OF THE AMERICAN RESEARCH UNIVERSITY

The first factor that must play a part in explaining the state of the modern economics profession is the rise of the research university in America. This is especially important in light of the American university system's dominance, which developed during the late nineteenth and early twentieth centuries and had become more or less established following the Second World War. The rise of the research university in America saw its eclipsing the more traditional collegiate establishments, the professionalization of the sciences—and especially importantly, the social sciences—and the increased specializations in the social sciences that would come to create the separate disciplines of economics, sociology, and political science out of what formerly was known more broadly as political economy.<sup>19</sup>

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<sup>18</sup> Robert Crunden, *Ministers of Reform: The Progressive's Achievement in American Civilization, 1889–1920* (Chicago: University of Chicago Press, 1984); John Rutherford Everett, *Religion in Economics: A Study of John Bates Clark, Richard T. Ely, and Simon N. Patten* (Philadelphia: Porcupine Press, 1982); Sydney Fine, *Laissez Faire and the General-Welfare State: A Study of Conflict in American Thought, 1865–1901* (Ann Arbor: University of Michigan Press, 1964); Richard Hofstadter, *The Age of Reform: From Bryan to FDR* (New York: Vintage, 1955); Eliza Wing-yea Lee, "Political Science, Public Administration, and the Rise of the American Administrative State," *Public Administration Review* (1995): 55; Gary North, "Millennialism and the Progressive Movement," *Journal of Libertarian Studies* (1996a): 12, and *Crossed Fingers: How the Liberals Captured the Presbyterian Church* (1996b: [http://www.garynorth.com/freebooks/docs/a\\_pdfs/gncf.pdf](http://www.garynorth.com/freebooks/docs/a_pdfs/gncf.pdf)); Dwight Waldo, *The Administrative State: A Study of the Political Theory of the American Public Administration* (New York: Holmes and Meier, 1984); Robert H. Wiebe, *The Search for Order, 1877–1920* (New York: Hill and Wang, 1967).

<sup>19</sup> Adam Smith, arguably the founder of classical-liberal political economy, held a chair in moral philosophy at the University of Glasgow. Whether called "political economy" or "applied moral philosophy," the positive principles of the Scottish Enlightenment, applied

The history of higher education in America is inseparable from its Protestant, and especially New England Reformed, heritage. The oldest educational institution in America is Harvard University, founded as Harvard College in 1636. The other colonial colleges include the colleges and universities now known as William and Mary, Yale, Princeton, Columbia, the University of Pennsylvania, Brown, Rutgers, and Dartmouth. William and Mary and Columbia (then called King’s College) were founded under the auspices of the Church of England, and Brown under the auspices of the Baptists, with no religious requirement for admission. The remaining institutions were explicitly Reformed (either Congregationalist or Presbyterian), although not all made a formal confession a requisite for study. The function of these institutions was, in the earliest days, the training of new clergymen.<sup>20</sup> The classical curriculum, although modified from the precise *trivium-quadrivium* model of near-universal liberal education prior to the Reformation, still largely informed core studies in the arts. Given the legitimating principles of Reformed Protestantism, Reformed clergymen were generally well educated and in much higher proportion than their Catholic counterparts until some time after the Council of Trent and the Counter-Reformation. The “priesthood of all believers” freed the Reformed tradition (and other non-Catholic, non-Anglican traditions) from clericalism but came with the requirement of significant instruction, especially in theology and the sacred languages (Hebrew, Greek, and Latin), for believers to understand the intended meaning of the Bible.

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to social issues, suggested a broad outlook that is in significant tension with current disciplinary specialization.

<sup>20</sup> The distinction between “private” and “public” was understood much differently than it is today. Both Church and State, spiritual and civil authority, were held to be public institutions, and it was regarded as not only normal, but obvious, that in Puritan New England they should mutually support each other. This was part of the later struggle over setting the boundaries between Church and State, which was a significant source of controversy in the development of American higher education.

Following the American Revolution, there was significant sectarian competition for control over existing educational establishments and creation of new ones. The most powerful factions were the Congregationalists and the Presbyterians, sometimes opposed, sometimes engaged in strategic alliances against rationalist humanitarians who wished to insulate the public square from religious controversies. The rationalist humanitarians abhorred factionalism and sought to found education as a vital series of public institutions built upon liberal Enlightenment principles.<sup>21</sup> Competition among these factions within and across educational establishments for students resulted in a temporary truce: public (State) schools, both precollegiate and collegiate, would not be committed to any particular denomination or confession, while the religious colleges, and specifically their faculties of theology and divinity, would continue to enforce confessional piety within themselves. Given the growing public perception of increasing tensions between orthodox Christianity<sup>22</sup> and Enlightenment principles, especially in the early nineteenth century, this equilibrium was unstable. The increasing importance in the mid- and later nineteenth century of technical training and preparation for careers in industry would see changes in the educational establishment that steadily decreased the prominence of explicitly denominational institutions committed to orthodox Christianity.

The forces that resulted in the creation and eventual dominance of American universities began in the mid-nineteenth century, although they did not fully develop until after the Civil War. In the early nineteenth century, educators looked primarily to Scotland for their educational and philosophical models. By the mid-nineteenth century, Prussia had become the guiding light. The Prussian university system, and especially the

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<sup>21</sup> Marsden, *The Soul of the American University*, chs. 3–4.

<sup>22</sup> This is not to be confused with the Eastern Orthodox Church. “Orthodox” (lower-case *o*) Christianity refers to the denominations that affirm the Niceno-Constantinopolitan Creed. On this definition, Deists and Unitarians are not orthodox Christians.

University of Berlin, emphasized advanced education by scholars conducting original research. Preliminary study in a *gymnasium* (roughly equivalent to a baccalaureate degree in America) was required for admittance. In America, where reason, science, and civic virtue were coming to eclipse Christianity as the legitimating principles for public life and institutions, educators eagerly looked to apply what worked in Prussia to America, albeit in ways that did not undermine the American civic religion. The transformation of American higher education began with the significant number of Americans who took their graduate courses in Prussia (or the Germanic polities more generally). From 1815 to 1914, between nine and ten thousand Americans studied in the Germanic polities. Throughout the second half of the nineteenth century, “it would be rare to find either a university leader or a major scholar who had not spent some years studying in Germany.”<sup>23</sup> Americans returned to their country greatly influenced by the Prussian model and were determined to apply it domestically.<sup>24</sup>

Initially, the atmosphere at the new research universities, and the existing colleges such as Harvard and Yale that would successfully transform themselves into world-class universities, was amenable to Christianity. While denominational conflicts were frowned upon—with the exception of Catholicism, which was regarded within most establishments with suspicion—a spirit of “liberal Protestantism” was formally established or informally (culturally) enforced. Attendance of religious services was frequently mandatory, and service-attendance requirements sometimes persisted well into the twentieth century. But the spirit of Christianity at the universities was ultimately superficial.<sup>25</sup> Religion was compartmentalized, such that explicit religious instruction was relegated to schools of theology or divinity, and was no longer part

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<sup>23</sup> Marsden, *The Soul of the American University*, 104.

<sup>24</sup> North (1996b, ch. 10) explores how Presbyterian clergymen-in-training were also sent to Germany, which was the leading seat of theological liberalism at the time.

<sup>25</sup> Marsden, *The Soul of the American University*, prologues 1–3.

of the standard arts or sciences curriculum by the early twentieth century. The emphasis was on morals—virtuous living, especially applied to the stewardship of the republic—rather than dogma. The spirit of liberal Protestantism at these universities primarily focused on improving the world through technical and moral education. As discussed in the previous section, religion was used primarily as a means for advancing the “Kingdom of God on earth.” Eventually, as increased developments in the natural sciences and biblical criticism developed, the cultural mandate of liberal Protestantism remained, but Protestantism itself was jettisoned.<sup>26</sup>

Americans returning from graduate study abroad brought not only enthusiasm for the Prussian university model, but also Prussian intellectual fashions regarding the theory and practice of political economy. Starting in the 1870s and 1880s, the (younger) German historical school’s approach to political economy, and especially its positive view of the State as an instrument of social control and improvement, began to filter into American political economy and the scholarly institutions within which political economy was practiced. American economists of this era rejected the ideas, as in classical economics, of universal economic laws and of economics as a value-free and deductive science. Instead they proclaimed an inductive and historically relative economics that explicitly engaged ethical concerns.<sup>27</sup>

Many new universities, such as Cornell, Johns Hopkins, Stanford, and the University of Chicago, were founded beginning in the 1870s with donations from wealthy capitalists interested in philanthropy and social reform. Political economy gained heightened prominence in this new landscape for higher education: “In 1880, college courses in Latin

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<sup>26</sup> Cf. Marsden, *The Soul*, 265: “The fatal weakness in conceiving of the university as a broadly Christian institution was its higher commitments to scientific and professional ideals and to the demands for a unified public life. In the light of such commitments academic expressions of Christianity seemed at best superfluous and at worst unscientific and unprofessional.”

<sup>27</sup> Fine, *Laissez Faire and the General-Welfare State*, ch 7.

outnumbered courses in political economy by ten to one.... At leading schools in 1900 there was parity. By 1912, only English had more undergraduate majors than did economics at Yale University."<sup>28</sup> Thus the American passion for practical, technical, scientific, research-oriented higher education not only affected new institutions, but the old and venerable colleges as well.

Economics as a scholarly discipline was largely constructed in the final decades of the nineteenth century. Previously, social science was typically the domain of "gentlemen scholars" outside of an explicit university establishment. But with the founding of the American Economic Association (AEA) in 1885, along with the rapid adoption of economics—the older term "political economy" was largely out of use by 1900—into university curricula, the stage was set for the rise of a recognizably modern economics profession, specializing in technical writing for peers and the education of new generations of graduate students.<sup>29</sup> Further, "the American university gave the economists more than academic chairs, a decent library, and students. The American university gave the economists *scientific authority*."<sup>30</sup>

Importantly, there was great homogeneity in the values of the social scientists and educators who oversaw the rise of the American university, the development of economics within the university system, and the professionalization of economics through the formation of bodies such as the AEA.<sup>31</sup> These men and women were Progressives. Many were

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<sup>28</sup> Leonard *Illiberal Reformers*, 17–18.

<sup>29</sup> Coats, "The First Two Decades of the American Economic Association"; Coats, "The American Economics Association and the Economics Profession."

<sup>30</sup> Leonard, *Illiberal Reformers*, 20, emphasis added.

<sup>31</sup> Richard T. Ely, social gospeler, economist, and institutional entrepreneur par excellence, pushed for the American Economic Association to be an explicitly anti-laissez-faire, pro-state-control professional body. However, after pushback from other founding members who wanted the AEA to primarily be a scholarly professional society, this element was discarded (Sidney Fine, *Laissez Faire and the General-Welfare State: A Study of Conflict in American Thought, 1865-1901* [Ann Arbor: University of Michigan Press, 1956], ch 7). The



committed liberal Protestants, but even those who were not were fully on board with liberal Protestantism's cultural mandate and the role of social scientists in advancing this mandate. They saw their discipline as an essential component of improving society using the tools afforded by an increasingly "scientific" economics. Thus, just as it is crucial to understand the scholarly institutions and practices that would come to define economics in its recognizably modern form, we must understand the relationship of liberal Protestant ethics to Progressivism, and the latter's eventual discarding of the former, to appreciate why today's economics discipline looks the way it does.

### III. PROGRESSIVISM AND THE SOCIAL GOSPEL: FROM ALLIANCE TO OBSOLESCENCE

Just as the developments of American higher education and religion are inseparable, the rise of Progressivism in America cannot be separated from its religious foundation. To be clear, Progressivism is not reducible to applied liberal Protestantism. But in terms of the development of ideas, there is a definite similarity, and without the influence of liberal Protestant<sup>32</sup> social ethics, including its then-evangelical zeal for

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importance of the professionalization of economics, and especially the AEA, lies not in its *direct* effect in linking economists to efforts at social control, but its *indirect* effects in facilitating the transformation of the discipline along scholarly networks centered in universities. On this point, see Rothbard, *The Progressive Era*, chapter 13, sections 6 and 7.

<sup>32</sup> On the term, see Eric Voegelin, *The New Science of Politics: An Introduction* (Chicago: University of Chicago Press, 1987). Today, the label "liberal Protestantism" is usually associated with mainline denominations (e.g., PCUSA, United Methodist, United Church of Christ, etc.). This is differentiated from "evangelical" denominations, such as the Baptists, Evangelical Free, Reformed, Wesleyan, or Southern Methodists. But in the late nineteenth and early twentieth centuries, before the growing separation between theological liberalism and evangelical activities across denominational lines, "evangelical" often referred to liberal Protestants.

"immanentizing the eschaton,"<sup>33</sup> Progressivism would not have had nearly so strong a social base.

Progressivism had many strands that were not always perfectly compatible. Nonetheless, there was a core set of beliefs in Progressives' calls for reform and the means by which reform would be achieved. Not all people who identified as Progressives, or all those we could classify as such in retrospect, had all these beliefs. But especially in the context of the professionalization of economics and the role of economics in supporting the managerial-administrative state, these core beliefs are frequently expressed. They are the beliefs (a) that laissez-faire had resulted in widespread inefficiency and an unjust distribution of income, (b) that it was the duty of the state to rein in the "anarchic" market economy using modern techniques of management and administration, and (c) that these techniques would be studied, developed, explicated, and applied by expert social scientists and public policy specialists, who would be trained in the universities.<sup>34</sup>

The rise of Progressivism and its impact on society through scholarship and politics can be traced back to the New England intellectual tradition:<sup>35</sup> "Nearly all [of the first generation of Progressive

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<sup>33</sup> On the relationship between various forms of millennialism and Progressivism, see North (1996a, 1996b).

<sup>34</sup> Fine, *Laissez Faire and the General-Welfare State*; Lee, "Political Science, Public Administration, and the Rise of the American Administrative State"; Leonard, *Illiberal Reformers*; Waldo, *The Administrative State*. See also Dorfman, *The Economic Mind in American Civilization*; Hofstadter, *The Age of Reform*; Wiebe, *The Search for Order, 1877–1920*.

<sup>35</sup> This tradition is more rich and variegated than our contemporary positions of liberal and conservative; hence mapping it onto either of the contemporary positions entails some discrepancies. For our purposes, the generalizable features of the New England tradition are its extraordinary emphasis on moral development and the reformation of society in ways that exhibit, and instill in future generations, civic virtue. The latter is an evangelical, if not messianic, project. John Adams, for example, is a quintessential representative of the New England tradition, but his thinking is much closer to Anglo-American conservatism than the antecedents of Progressivism. See Russel A. Kirk, *The Conservative Mind: From Burke to Elliot* (Washington, DC: Regnery Publishing, [1953] 2001), ch. 2, for the classic statement of

scholars and activists] descended from old New England families of seventeenth-century Massachusetts Bay background....More often than not, Progressives were the children of protestant ministers or missionaries, fired with an evangelical urge to redeem America."<sup>36</sup> The social mission of these activists and scholars was conceived as an act of redemption. However, the object of redemption was not the individual soul, as in orthodox Christian soteriology, but society itself. Salvation was perceived as a social effort because sin was perceived as "social in cause."<sup>37</sup> This was the underlying principle of the social gospel, which emphasized the worldly and natural vocation of the Christian activist and diminished the importance of the spiritual and supernatural aspects of salvation. Dedicated to social improvement and armed with the modern techniques of science and administration, the social gospel held that Christian activists could, and in fact were called to, build the Kingdom of God on earth.

The social gospel greatly impacted the men and women who oversaw the professionalization of economics and its situation within the new American university: "The American Economic Association ... embodied the social gospel's distinctive amalgam of liberal Protestant ethics, veneration of science, and evangelizing activism of pious, middle-class reformers."<sup>38</sup> While social-gospeler Progressives did not neglect the voluntary institutions of civil society, their primary concern in seeking means of social improvement was the state. The economists who were active in the early days of economics' professionalization and re-situation within the university were, almost uniformly, hostile to laissez-faire and saw the state—guided by the latest advances in economic theory—as the

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Adams's social and political thought as well as the Anglo-American conservative tradition more generally.

<sup>36</sup> Leonard, *Illiberal Reformers*, 11–12.

<sup>37</sup> *Ibid.*, 13.

<sup>38</sup> *Ibid.*, 12. See also Everett, *Religion in Economics*.

proper tool for correcting the ethically unacceptable consequences of the "anarchic" market economy.

Eventually, the social gospel, and liberal Protestantism itself, would fade in importance in sustaining Progressive causes. This was partially caused by the First World War: "The Great War's slaughter and uncontrolled irrationality mocked the Progressive idea of spiritual and social progress through enlightened social control."<sup>39</sup> However, by this time, Progressivism had become institutionalized through its entrenchment in the Academy and through the de facto and de jure constitutional innovations of the Wilson administration. Growing concerns among subsets of Catholics and Jews that social improvement via control was needed resulted in the next generation of Progressives distancing themselves from religion. By the time John Maynard Keynes and, slightly later, Paul Samuelson captured the imagination of the economics profession, the Christian roots of the quest for social improvement through social control were held in mild contempt by many social scientists and public policy experts. What remained was a quasi-religious belief in the powers of science applied to the study of man to improve the human condition through the deliverance of material abundance.<sup>40</sup> Experts in economics and public policy would continue to wield their scientific knowledge and the apparatus of the managerial-administrative state to bring about social improvement, without the now-unfashionable justificatory requirements of liberal Protestantism's eschatology and soteriology.

#### **IV. ECONOMICS, ACADEMY, AND STATE: A SYMBIOTIC RELATIONSHIP**

The New England intellectual tradition and the early roots of Progressivism in the social gospel together explain the forces behind

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<sup>39</sup> Leonard, *Illiberal Reformers*, 15.

<sup>40</sup> Nelson, *Economics as Religion*, chs 3-4.

economics' professionalization and how, in alliance with sympathetic politicians such as Woodrow Wilson, the political machinery was established that economists would then study and wield. These are the antecedents of the modern economics profession, but we still need to build a bridge between economics as it developed up until approximately the Second World War, and as it is currently structured. This is a story of intellectual revolution accompanied by an implicit (and hence little recognized) normative shift in the role of the social scientist.

Interestingly, an observer of the economics profession in the early twentieth century would not necessarily have bet on the Progressive economists. In the 1910s and 1920s, American economics began to shift in a manner more receptive to the neoclassical economics of the kind practiced by Alfred Marshall or Ludwig von Mises.<sup>41</sup> The case of John Bates Clark is particularly noteworthy. Initially sympathetic to the "new" political economy he learned while earning his doctorate in Germany during the era of the younger German historical school, he made an about-face in his most famous work, *The Distribution of Wealth*. Clark eschewed the historicist approach of his contemporaries, developing what we today recognize as the marginal-revenue-product theory of factor pricing, which showed that the factors of production tend to earn the value they add to production processes. Instead of radical social reform, Clark recommended the comparatively modest program of the state promoting competition by enforcing a level playing field, such as by preventing the formation of trusts. As Clark's example shows, historicist and

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<sup>41</sup> A self-consciously Austrian school of economics (except in the limited context of opposition to the German historical schools) had not yet developed. That would not take place until after the Second World War. Instead there were Anglo-American and Continental variants of neoclassical economics. The variants had their differences, but both were committed to the project of rebuilding economics along the line of subjective value and marginal analysis.

institutionalist political economy was on the retreat; neoclassical economics, whether in its English or Austrian variants, was on the rise.<sup>42</sup>

But the machinery was already in place for the economist to assume the role in society most similar to that of today: that of the scientific expert. Ironically, the retreat from explicit reformist activism in the interwar years facilitated economists’ coming to have a far greater role in public policy. The discipline’s fading enthusiasm for activism and reform was replaced by the desire to develop the neoclassical paradigm as a value-free science. By eschewing an explicitly ideological orientation, economics bolstered its claim to scientific expertise. Thus economists, due to their self-consciously scholarly and academic orientation in the 1920s and the 1930s, could be incorporated into later state planning efforts—such as those that would follow with the New Deal, the Second World War, and the beginning of the Cold War—without raising ideological flags. Economists were no longer seen as Progressives seeking to reform society using the state, but experts—more often than not credentialed with PhDs from elite universities—helping to conduct the ordinary business of running the mid-twentieth-century social machinery.<sup>43</sup>

A confluence of events beginning in the 1930s resulted in the development of modern scientific (model-and-measure) economics. In the midst of the Great Depression, Keynes published his *General Theory*, which argued that markets in the aggregate were unstable because of the fickle behavior of investors. Markets would not self-regulate. Instead the economy could get stuck in a costly unemployment equilibrium characterized by widespread resource under-utilization. John Hicks would later attempt the first formalization of Keynes’s literary theory, but it was Paul Samuelson, with the publication of *Foundations of Economic Analysis* and *Economics*, for graduates and undergraduates respectively, who initiated the revolution in how economists practiced their craft. It was

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<sup>42</sup> Sidney Fine, *Laissez-Faire and the General Welfare State* (Ann Arbor: University of Michigan Press, 1956/1964), ch 7.

<sup>43</sup> Fourcade, *Economists and Societies*, ch 2.

through Samuelson, in these foundational texts and his later writings, that the macroeconomics of aggregate-demand management and the microeconomics of market failure came to dominate the profession. Importantly, Samuelson and his contemporaries saw themselves as providing a purely scientific foundation for economics, eschewing the political agendas of the first generation of Progressive economists. While we have no reason to suspect their intentions were anything but sincere, the methodological transformation of economics did in fact have significant political implications.

The Second World War and afterward the Cold War were also watershed events in the development of economics. With the outbreak of the war, many mathematicians, statisticians, and social scientists entered the service of government, both in the armed forces and as civilian consultants, working on problems related to the optimal allocation of resources in the wartime economy. It was during the Second World War, within the armed forces and at institutions such as the RAND Corporation, that operations research and linear-programming models were developed and refined to best serve the war effort. The development and refinement of these models would be taken up in the aftermath of the war by the economics profession on a mathematical track parallel to, but distinct from, the mathematical foundations pioneered by Samuelson. The transition from the Second World War to the Cold War ensured an environment in which the public sector would perpetually require social scientists to work on problems in the service of US tactics, strategy, and grand strategy.<sup>44</sup>

By the beginning of the Cold War, the economics profession's self-understanding had shifted to one of professional scientists conducting

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<sup>44</sup> Fourcade, *Economists and Societies*; Marion Fourcade and Rakesh Khurana, "From Social Control to Financial Economics: The Linked Ecologies of Economics and Business in Twentieth Century America," *Theory and Society* 42:2 (2013): 121–59; Mitchell, "Economists and the Economy in the Twentieth Century"; Mirowski, "How Positivism Made a Pact with the Postwar Social Sciences in the United States."

value-neutral research. Economists employed by the public sector plied their trade in the service of the New Deal State’s managerial apparatus, while the last meaningful resistance to that apparatus among the American public and intellectuals was quickly evaporating. This complemented the practice of scholarly economics within the universities. With the rise of constrained optimization, comparative statics, linear programming, and econometrics, university-based economists developed the practical tools that their counterparts in public policy would use in staffing the bureaucracy. By developing theory and putting new discoveries to work, economists assisted politicians and bureaucrats in governing the postwar economy, both at the micro level and the macro level. Economists came to be seen as important sources of expertise in making sure markets operated as efficiently as possible. Efficiency and material prosperity thus became the implicit formative justification for the administrative state and the role of the economic expert within it.<sup>45</sup> Economists both ensured the best possible operation of the market mechanism and, to the extent they were employed in strategic concerns, contributed to the effort of allocating manpower and material in the standoff with the Soviet Union.

## **V. THE INSTITUTIONS OF ECONOMICS EXAMINED: LIVING WITH THE MANAGERIAL STATE’S “EXTENDED PRESENT”**

The above bird’s-eye history of the economics profession and its relationship to the Academy and society at large explains how economics came to be the way it is. Entire books can be, and have been, written on the numerous claims I presented in the narrative. My purpose in the streamlined presentation was to show that *the situation of economics scholarship within research universities, and that scholarship’s close relationship to public policy, is not the appropriate place to begin an exploration of how*

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<sup>45</sup> Nelson, *Economics as Religion*.



*economists practice their craft.* To wit, the relationship between economic scholarship and public policy is unthinkable without the former's situation within the university and its claims to scientific authority based on mathematical and statistical rigor. The university setting and economics' claims to authority are unthinkable without the early Progressive economists and the drive to professionalize the discipline and create out of the antebellum collegial setting of higher education a genuine university system. And these late-nineteenth- to early-twentieth-century movements are unthinkable without reference to the earlier controversies over higher education in the United States, and especially the role of religion in higher education. In each case, the culture and ideas then prevalent structured the actions of those who would engage in social entrepreneurship, changing at the margin the way social scientists and reformers engaged the separate but overlapping spheres of scholarship and statecraft.

The formalization of economic theory, and the development of advanced statistical techniques for ascertaining causality in the absence of controlled experiments, obviously constituted a revolution in the practice of economics. This has already been explored extensively by many of the authors cited in the previous sections. It is also a significant part of the explanation for the "superiority of economists":<sup>46</sup> the source of their discipline's dominance among the social sciences, their greater material rewards, and their significant influence on public policy. As Leonard<sup>47</sup> shows, the first generation of Progressive economists played a nontrivial role in the creation of the managerial-administrative state in the Wilson administration. But economists played a far greater role in developing the New Deal State in the Roosevelt administration as well as staffing various public policy positions within the State and within related organizations such as think tanks and NGOs that also play an important part in the policy process. The transformation of economic theory and practice along

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<sup>46</sup> Fourcade, Ollion, and Algan, "The Superiority of Economists."

<sup>47</sup> Leonard, *Illiberal Reformers*.

nominally scientific lines provided the justification for economists having such heavy influence. Whereas the Progressive economists of the first generation were overt reformers, those in the generation beginning with Samuelson were reformers in disguise. They were not engaged in politics, a practice of questionable repute. Instead they were scientists conducting value-free scholarship, or they were implementing public policy, an activity that, in the tradition of Woodrow Wilson<sup>48</sup> came to be seen as an administrative, and hence apolitical, task. But, as Levy and Peart<sup>49</sup> show, the selection of social values by deliberation and their implementation by experts have never been, and probably can never be, realized. Economists, like everyone else, respond to incentives, and in their role as experts they have certainly not been apolitical. Values inform the politics even of experts, and experts respond to the changing constraints afforded by political environments, much as we would expect from standard rational choice theory.<sup>50</sup>

Nelson<sup>51</sup> shows how the values of Samuelson and Samuelson’s generation of economists continued the Progressive tradition. These scholars, who all had first-class minds, saw no contradiction between advancing values they saw as crucial to equality and democracy while overseeing the methodological transformation of their discipline in a way that made economics uniquely suited to guiding the ship of State. In fact, there is no contradiction, in the sense that these projects are not incommensurable. But when they are actually operationalized within the institutions comprising Academy and State, any claims to the clear separation of fact and value—and, in the realm of practice, between (interest-sensitive) politics and (disinterested) policy—are untenable.

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<sup>48</sup> Woodrow Wilson, “The Study of Administration,” *Political Science Quarterly* 2:2 (1887): 197–220; Woodrow Wilson, *Congressional Government: A Study in American Politics* (New York: Meridian Books, [1885] 1956).

<sup>49</sup> Levy and Peart, *Escape from Democracy*.

<sup>50</sup> Levy and Peart, *How the Dismal Science Got Its Name: Classical Economics and the Ur-Text of Racial Politics*, 12. See also Levy and Peart, *The “Vanity of the Philosopher.”*

<sup>51</sup> Nelson, *Economics as Religion*.

Samuelson, his contemporaries, and his successors were still trying to “immanentize the eschaton.” But the eschaton had become secular. Progression toward the Kingdom of God on earth had been replaced with progression toward ever-increasing material prosperity. Economists claimed scientific expertise in the ability to understand and manage the “market mechanism” to ensure its maximal efficiency and the equitable distribution of goods. The former was perceived as purely scientific, whereas the latter, while admittedly a value judgment, in the postwar climate had become almost universally held among the most prominent intellectuals. In fact, both were ultimately normative commitments, and while they may be separable in a purely intellectual sense, in reality they are entwined.

We can now return to the puzzles discussed in the introduction. The puzzles centered on particular practices by economists that, if pressed, economists will acknowledge are questionable at best and inconsistent with basic theory at worst. The reason these practices persist is the peculiar “entanglement”<sup>52</sup> between the institutions of Academy and State. The entanglement began in the earliest days of the university, was driven by the religious concerns and controversies within US higher education since the beginning, and went hand-in-hand with the early ascendancy of Progressivism. By the time of the Wilson administration, it was solidified; by the time of the Roosevelt administration, each was put to work in the service of the other. The practices of State reinforced and promoted the social role of Academy, and the practices of the Academy promoted the efficacy and reach of the State. In other words, there was a mutually reinforcing feedback loop between Academy and State. This feedback loop also served as a filter, promoting certain kinds of economic explanations and practices and retarding others.<sup>53</sup>

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<sup>52</sup> Richard E. Wagner, *Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy* (Northampton: Edward Elgar, 2016).

<sup>53</sup> Rushdoony (1995 [1963], p. 169) is worth quoting at length on this point: “Not only must the university, if it be consistent, reject statism internally and externally, but it must

As Tarko<sup>54</sup> explains, any successful scientific community is governed by a host of overlapping institutions, including informal norms, which give scientists the information and incentives necessary to contest each other's findings. It is this contestability, rather than narrow falsifiability, that results in scientific progress and the tendency toward accumulation of genuine knowledge. But these information flows and incentive structures will change if the institutional structure of science changes. In the context of economics, involvement with statecraft did not only provide economists another outlet for applying their findings. The growing entanglement of Academy and State changed the institutions within which scientific discourse took place. Thus the choices of economists in terms of theory development and method selection<sup>55</sup> must be explained not by the influence of Academy and State as separable institutions, but by an overlapping institution that arose from their overlapping social networks.

This overlap also was characterized by a reward structure that promoted Samuelsonian economics in the service of the administrative state. The prospect of public funding, public sector employment, and the

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recognize that the free university can exist only in a free society, and that it has an obligation to promote that society. The university cannot shirk its cultural and sociological obligation without ruin to itself. A major and insistent threat to academic freedom today is the decline of private giving to education. The mainsprings of freely given financial support are drying up as a result of the rise of statism. A confiscatory system of taxation and a policy of government encroachment on a free economy increasingly render it difficult for the university to command a financial support from a financially free population. Lacking these sources, the university finds very tempting the constant flow of government funds. Today, atomic research, and, with it, allied avenues of study, has largely passed into the hands of the government and its subsidized allies. The temptation grows to emphasize the value of research in terms of governmental needs."

<sup>54</sup> Vlad Tarko, "Polycentric Structure and Informal Norms: Competition and Coordination within the Scientific Community," *Innovation: the European Journal of Social Science Research* 28:1 (2015): 63–80.

<sup>55</sup> Felipe Almeida, Eduardo Angeli, and Renato Pontes, "An Institutional Explanation for Economists' Theoretical and Methodological Choices," *Review of Political Economy* 29:1 (2017):80-92.

prestige that comes with making public policy changed the reward structure economists faced not for giving specific answers to a preordained set of questions, but for changing the questions themselves. Involvement with statecraft altered the universe of discourse. Relatedly, the practices of the managerial-administrative state had their objectives given, in part, from the theories promulgated by university-trained economists. Objectives such as the maintenance of full employment or the provision of nonrivalrous and nonexcludable goods were granted legitimacy by the apparent status of economics as objective social science, and allowed the various executive organs to expand their mandates in line with advances in economic theory and history that showed new ways to solve existing problems, or new problems to be solved. Like Scott,<sup>56</sup> we may say the success of postwar economics as a developing scientific community with significant influence on public sector outcomes is attributable to economics generating the kind of information required for administrators to “run” the economy as if it were a business organization or a piece of industrial machinery. Aggregate-demand-failure macroeconomics and market-failure microeconomics provide the technical solutions to mechanical problems the state is uniquely positioned to remedy. These kinds of economics “objectify” or “rationalize” the economy, an otherwise complex system, such that it can be governed.

If this is correct, the organs of public policy are part of an Academy–State institutional network derived from two separate groups of institutions that happen to be working in tandem. Economists govern, governors use economics, and individuals within this institutional complex often practice both roles, perhaps even simultaneously. The reason this institutional morphing was so effective is due, in part, to what the State institutions brought and continue to bring to the relationship.

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<sup>56</sup> James C. Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed* (New Haven: Yale University Press, 1999).

The government is a “big player,”<sup>57</sup> which means it gets to play the social game by a different set of rules than other social groups. The most obvious rule is the government’s monopoly on coercion. But the most relevant for the Academy–State story is the government’s soft budget constraint. The public sector simply is not bound by the same kind of fiscal constraints as the private sector. It has much more wiggle room. This enables the public sector to mobilize significant resources and direct them to activities that, had they been undertaken by private organizations (whether for profit or not) would not be sustainable.

This surely plays a prominent part in explaining the rewards structure modern economists receive for asking questions and offering answers that are useable, in a broad sense, by the managerial-administrative state. Examples include the salaries and benefits for public sector employment, the creation and endowment of public universities, and providing research grants for scholars whose positions are nominally private. Economists who are outside the mainstream either in research topic or method of investigation face a competitive disadvantage against their scholarly peers in acquiring the necessary resources for conducting their projects. Out-of-step economists thus are less adaptively successful in this environment because, within prominent scholarly organizations, they receive less support, or because (and this is probably far more likely) they are never hired by prominent scholarly organizations, since the scholar-evaluators know the potential hiree cannot contribute to the health of the organization, which is achieved in part by accessing those resources.

Finally, potentially out-of-step economists make a rational choice to engage in conventional projects at the margin. The combination of these factors explains why economists are pursuing scholarly lines of questionable internal consistency, and why, despite this, alternative paradigms within the Academy and government are rare. These

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<sup>57</sup> Roger Koppl, *Big Players and the Economic Theory of Expectations* (New York: Palgrave Macmillan, 2002).

alternative paradigms are simply less competitive in the Academy–State institutional complex.

The last, but certainly not the least important, feature of the overlapping institutions of Academy and State, which underlies modern economic discourse, is that it was not intended by any of the individuals or groups of individuals who took part in the social changes discussed in sections 2, 3, and 4. The positive feedback loop between mainstream economics and the practice of the administrative state is a spontaneous order: to quote Adam Ferguson, “the product of human action, but not of human design.” This is decidedly not a conspiracy theory of economics, because there are no conspirators. Perhaps some of the social, political, and intellectual entrepreneurs who took part in this process had designs on power, and perhaps some envisioned something like the final result. But, for the most part, these movements were advanced by individuals of high intellect with a sincere desire to do good, who in no way intended the result, by which I mean they did not have as a goal the positive feedback loop between managerial-administrative economics and economics-informed administration. At each step, from the early days of higher education in the United States to the postwar mainstream consensus, the *intentions* of the relevant actors can best be explained as altruistic, but the *results* of their actions can best be explained as adaptive. It is in this sense we are living with the extended present not just of the managerial-administrative state, but of the nondenominational liberal Protestant ethos of the university, and the New England religious intellectual tradition more generally. This is why, in spite of the importance of Samuelson’s generation, the expansion of the State under the New Deal, and the bidirectional support networks between the most prestigious universities and the practice of public policy, I spent comparatively more time on the historical antecedents of these events. Their success simply cannot be explained in a vacuum. History, culture,

and ideas matter,<sup>58</sup> especially when these spheres are important centers of the various feedback loops and adaptive filters that promoted the various reform efforts.

Boettke and Bedard,<sup>59</sup> in their discussion of the determinants of economic policy, provide a way to think about these claims in simple game-theoretic terms. They conceive the interaction between Academy (economists) and State (governors) as follows: Economists can position themselves as either "students" or "saviors" of society, and governors can position themselves as "referees" or "players" in the social game. Unstable equilibria arise when economists are students and governors are players, or when economists are saviors and governors are referees. Of the stable equilibria, the one relevant to my thesis is the one in which economists want to be saviors of society and governors want to be active participants in the social game. This results in the mutually reinforcing roles chosen by economists and governors, where economic experts derive positions and give advice to experts, and experts employ and support economic experts. To understand why this equilibrium is stable, however, we need to understand the institutional forces at work in shaping the information and incentives of economists and governors, and thus their historical context. Rather than isolated decisions that happened to congeal in the postwar United States, the roles embraced by economists and governors, which yielded mainstream economics as we observe it today, are historically path dependent. To understand the equilibrium, we need to understand the ideas that give structure to the tradeoffs faced by the actors within Academy and State; to understand the ideas, we need to appreciate that ideas do not develop in a vacuum, but are themselves the result of the interactions among theorists and practitioners in a specific institutional context. This is why we cannot answer the puzzles set out in the introduction without recourse to the New England intellectual tradition

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<sup>58</sup> Rodrik, "When Ideas Trump Interests."

<sup>59</sup> Peter J. Boettke and Mathieu Bedard, "Towards a Theory of Economic Policy: A Contemporary 'Austrian School' Perspective," working paper, 2017, 23.



and the path the carriers of this tradition took when they interacted within other institutions. The events may be far removed, but they cast a long shadow.

## VI. CONCLUSION: SO WHAT?

Alchian famously argued that modeling firms as profit maximizers, as a heuristic, was coherent ultimately because of the institutions within which firms competed.<sup>60</sup> Those firms that failed to make realized profits as large as possible would lose market share to their competitors, and so at any given instant, observed firms would be the ones most likely to have succeeded at maximizing profits. The emphasis was not on behavioral characteristics or internal motivation, but on the formal survival characteristics of firms that managed to be adaptively successful.

This is how we ought to think about modern economics. Behavioral and intentional considerations aside, the economics profession too has its filters that promote certain kinds of economics and discourage others. Modern economics has “passed the market test,” but once we pay attention to the filtering mechanisms that characterize this particular market, we have good reason to suspect the market test isn’t testing for what it claims. How? *Due to the entanglement of Academy and State, the economics profession and the administrative apparatus of government form a mutually supporting network. Economics that can be applied to the practices of the managerial-administrative state is promoted; economics without such ease of application is discouraged.* This means modern economic practice can be explained by the adaptive value of certain kinds of economic scholarship, where that value is not clearly related to what is true (i.e., actually the case).

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<sup>60</sup> Armen A. Alchian, “Uncertainty, evolution, and economic theory,” *Journal of Political Economy* 58:3 (1950): 211–21.

Other scholars<sup>61</sup> have also come to the conclusion that entanglement with some other social sphere has resulted in the institutions within which economic scholarship competes and qualities other than truth are selected for. At risk of oversimplifying and creating the impression of more commonalities than actually exist, I believe these scholars’ arguments suggest that private interest, and in particular that implicit in economists’ penchant for what might be called neoliberal scholarship beginning with the rise of the Chicago school, has resulted in scholarly economic institutions selecting for models that suggest an unrealistic degree of market efficacy. Scholarship sponsored by private business plays a different role in each of these explanations, but it is always a worry.

I share these scholars’ concern for the influence of outside institutions on the practice of economic scholarship. But I disagree with *what* is the primary source of this influence. Most obviously, the economics profession is not the bastion of laissez-faire it is often portrayed as. Within economics, faculty voter registration at elite universities leans significantly Democrat. There are 4.5 registered Democrats for every Republican among economists at these universities, which admittedly is smaller than in the fields of (in increasing order of Democrat–Republican ratios) law, psychology, journalism, and history, but still is nowhere near the kind of free market consensus often imagined.<sup>62</sup> Even stronger contrary evidence is supplied by Klein and Stern,<sup>63</sup> who show that among AEA members, only approximately 8 percent can be classified as

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<sup>61</sup> For example, Michael A. Bernstein, *A Perilous Progress: Economists and Public Purpose in 20<sup>th</sup> Century America* (Princeton: Princeton University Press, 2004); Avner Offer, and Gabriel Söderberg, *The Nobel Factor: The Prize in Economics, Social Democracy, and the Market Turn* (Princeton: Princeton University Press, 2016); Zingales, “Preventing Economists’ Capture.”

<sup>62</sup> Langbert et al., “Faculty Voter Registration.” It is admittedly questionable whether Republicans’ behavior matches their stated positions. They certainly employ the *rhetoric* of laissez-faire and hostility to the managerial-administrative state. Their *actions* on this front once in power are far less clear. Nonetheless, the stark difference in public perception means the skewed ratio probably does convey some real and useful information.

<sup>63</sup> Klein and Stern, “Is There a Free-Market Economist in the House?”

supporters of free markets, and 3 percent strong supporters of free markets. Lastly, Boettke and O'Donnell<sup>64</sup> give numerous reasons why, in the context of the financial crisis and ensuing Great Recession, the corruption of economic scholarship by private business interests is unlikely. Compared to public influence in the form of research support, public-university jobs, and positions directly in the public policy apparatus—all underpinned by a soft budget constraint, a piece of institutional technology that private interests cannot access qua private interests—the effects of private interests in skewing economic scholarship are, in my view, only of secondary importance.

The question of public vs. private interest in changing the institutions governing scholarly economic discourse is fascinating, but I do not want to go more into that distinction here. My goal was to provide some evidence, and convey my personal opinion, that private interests were not the *chief* source of influence over the institutions of economic scholarship. I do not mean to run a horse race between Corporation and State. I certainly do not want to suggest that my argument solely implies bias against laissez-faire economics. The whole point of the Academy-State filter is that it simultaneously selects for managerial economic bureaucrats and an economics of managerial bureaucracy. This means that any economics that cannot be used to administer the State apparatus will be selected out for reasons other than validity. This situation is troubling also to those economists on the far left for whom the administrative state is a tool of capitalist exploitation. There is little room for *genuine* radicalism in economics these days; Marxists, even those who have moved beyond contentious theories of value and into the interesting propositions Marx made concerning the trajectory of “late capitalism,” are marginalized just like Austrians. Post-Keynesians too have a hard time in the current environment due to important theoretical concepts such as the “Minsky moment” not lending themselves well to the model-and-measure

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<sup>64</sup> Boettke and O'Donnell, “The Social Responsibility of Economists.”

methodological positivism that has proved so beneficial for the health of the Academy–State relationship.

The economics profession does have moments of self-reflection, wherein its contributors acknowledge some problem and vow to perform better in the future. Monetary economists eventually recognized Fed complicity in putting the “Great” in “Great Depression”; comparative economists eventually realized economic efficiency could not come from central planning; methodologically savvy economists eventually admitted the poverty of logical positivism, and admitted that model-and-measure economics was not the sole avenue to Truth; macroeconomists following the Great Recession acknowledged that dynamic-stochastic-general-equilibrium models frequently use superficial rigor to mask their paucity in shedding light on important macro transmission mechanisms. These moments of honest self-criticism are valuable and proper for a scholarly and scientific discipline. But they are also transient: few if any of the above moments of enlightenment resulted in anything more than a surface-level change in how economics was practiced. This is difficult to explain if we see economics as governed by institutions that we would classify as best promoting critical scholarship and only critical scholarship. It is much easier to explain if we recognize that there is some feature of scholarly economics institutions that are selecting for explanations on margins other than truth.<sup>65</sup> This does not, by itself, imply that the explanations are themselves untrue. But for those who are dedicated to the search for truth (or whatever can be legitimately known of it), the fact that some kinds of economics have strong adaptive value for reasons unrelated to truth should be frightening.

So what, if anything, should be done about this? Hopefully I have made a strong enough argument that my readers are convinced that the market for ideas in economics is not free of institutional distortions. But

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<sup>65</sup> For a perspective on the problem from an alternative paradigm than classical liberal political economy, but nonetheless arrives at many of the same diagnoses, see Steven Payson, *How Economics Professors Can Stop Failing Us* (Lanham: Lexington Books, 2017).

the complexity of the topic means a single research paper is not going to be anywhere near definitive. We need an ongoing scholarly effort devoted to the durable institutions of economic science, how they have changed, and how those changes may have distorted the playing field on which economic ideas compete. If my thesis is wrong, at least we will have a new body of institutional history and history of thought that adds to the stock of human knowledge. If my thesis is right, things become much more complicated.

One of my graduate school mentors is fond of saying, “Institutional problems demand institutional solutions.” I see no reason why that ought not hold here. We must seriously think about the requirements necessary to enable scholars to produce ideas that have parity on the intellectual field of battle. So long as big players are entangled with the institutions of economic scholarship, I do not see how that can be the case. In the extreme, we must recognize, demand, and ultimately realize the separation of Academy and State. I hold no illusions about this being possible within the foreseeable future and without a great deal of hard work. But, as they say, the first step is recognizing that you have a problem.