UDK 338.2(73)
Izvorni znanstveni članak
primljeno 18. 10. 1991.

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WHY BE AN ECONOMIST?

Past recipients of the Veblen-Commons Award have often begun by explaining how they became institutionalists, or what they foresee to be the future of institutionalism. My view of our future, you will see, scarcely justifies exuberant optimism such as: "I predict that the 1990s will be the decade of the institutionalist. The American Economics Association will announce no later than 1999 that the annual meetings will be devoted to two themes: The first will be, "The Resurgence of Words in Economic Analysis," and the second will be, "A New Commitment to Policy Relevance in Economic Modelling." No one would believe any of this.

More seriously, I would begin by noting that both how I became an institutionalist, and more fundamentally, why I went into economics, has a good deal to do with how I regard our discipline today. As some may know I grew up in Austin with Clarence Ayres as my neighbor.

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A SEVENTEEN-YEAR-OLD TEXAN CONTEMPLATES A CAREER

When I initially encountered Clarence, the economist, I was very young. I listened to his lectures and read his new book, *The Theory of Economic Progress*, and I was totally bedazzled. In the course of enlightening us on the technological continuum, Clarence managed in virtually any typical rhetorical sweep to move from, say, Alley Oop's hammer to Mozart to Picasso to Dr. Kinsey. I acquired the, I now realize, distinctly odd notion that all these were part and parcel of any normal lecture in economics. Of course I was fascinated. I was at the time living with my aunt and uncle, longtime friends of Ayres. Clarence's class met at eleven and they picked me up to take me home for lunch at twelve. On the way home I would recapitulate the day's lecture and my aunt, particularly, would work hard at trying to understand the distinction between the technological and the institutional. I also discoursed on the instrumental theory of value, placing it, as I recall, second in importance only to the Law of Gravity. She was awed but unconvinced, and I felt that my explanations must be hopelessly inadequate.

Not too long thereafter, I found myself at Berkeley entering their Ph.D. program. This transfer was not unlike a lifelong Unitarian entering a Druid Monastery. Marginal utility, indifference curves, and *ceteris paribus* assumptions were in. Alley Oop, Mozart, Picasso, and Dr. Kinsey were all gone. I was miserable. I took to crossing Berkeley–s broadest streets as slowly as possible and hoping for the worst which at the time struck me as best. There were days when I hated Clarence for persuading me I was interested in economics when what, my early Berkeley ruminations suggested ominously to me, I was obviously interested in wasn't economics so much as Clarence. What had I gotten myself into?

What indeed? Later reflection persuaded me that it was pragmatic concern for the world about me combined with an urge to do something about it that led me to economics. It was then that I saw clearly that beyond Clarence, the classroom spellbinder, was a man whose interests, concern for value questions, and approach to economics were almost totally consonant with the mind set with which I initially approached economics. I assumed from the start that economics was an important-even vital-field. My approach was an intuitive reaction to a childhood in Austin as much as anything else. Growing up in that very segregated Texas town, topped off by an undergraduate education which led me in English to read *The Grapes of Wrath,* in Sociology to read Myrdal–s *An American Dilemma,* and in economics to read Veblen, Berle and Means, and Keynes led me to a perspective which I confess I hold to this day.

ECONOMIC ANALYSIS-IMPROVING A FLAWED SYSTEM

I grew up convinced that poverty even in the United States was a problem of immense proportions and that it was closely tied to both racism and classism.

Myrdal–s *American Dilemma*[1] especially spoke directly to me and to my early Texas experiences. I absorbed, perhaps without realizing it, the realization that virtually all the Blacks one encountered were poor. While there was a lot of white poverty in the South it was better insulated from the academic cocoon than black poverty. If there were any affluent Blacks they were never visible to me.

I did not then associate Myrdal with institutionalism, though twenty years later he was widely recognized as the leading European institutionalist. *An American Dilemma* bristles with analyses of economic problems, but on looking at the work now two factors strike me immediately. One is that he makes little or no effort to separate the narrowly economic from other aspects of the societal challenge which race relations in the United States represented.

The second factor is that concern with societal values suffuses the work. This is no depiction of a system operating automatically to produce results which should be accepted, let alone regarded as ideal, because of the way in which they were generated.

Myrdal I now realize was reinforcing my institutionalist perspective. From the start I never bought into the view that any part of the economy, most particularly the market, generated consequences which should be accepted uncritically. I never believed, therefore, in the economy as a normatively neutral vessel, producing any results, allocative or otherwise, which were anything more than grist for the mill of societal review, which-then as now-seemed to me to be the critical factor.

Here we come to the heart of institutionalism. The market is no more nor less miraculous than many other conveyor belts. It may work in extremely efficient fashion, it may be fast, it may be ruthless, it may be unflagging, but always we must ask, is it conveying what we wish conveyed and who is it hurting along the way?

An American Dilemma is a long painful depiction of the enormous value gap between American Ideals (Myrdal calls it the American Creed) and the way in fact that American society circa the 1940s was operating. It is a dissection of a flawed system and a flawed process, described in scholarly and excruciating detail by a man who nevertheless was, at the end of his study, highly optimistic about the possibilities for making the kind of progress which haltingly we began to make, through the civil rights legislation of the 1960s and in other ways, in the years following Myrdal–s assessment.

As economic analysis the work is far more qualitative than quantitative though there are statistics on the impact of racism on the division of income, consumption, production, and employment. At the end, it is Myrdal–s view of the unequal division of both opportunity and hope which impresses. It is a powerful antidote to current economists– obsession with quantitative analysis and a strong impetus to the revalidation of diverse methodologies. Myrdal–s depiction of the sick symbiosis between racism and poverty and the impact of this on the national psyche stays with one far longer than any mere statistic could.

My reasons for wanting to be an economist were, therefore, fundamentally normative. They were institutionalist, and many today would no doubt say they were naive. I thought as a discipline economics was to be used for the purposes which Myrdal suggested. I took seriously Veblen–s contention that it had something to do with "enhancing the life process." Alleviating poverty, I thought, would be a giant aid in alleviating racism. I presumed that widespread poverty as well as the skewing of health care, education, training, and opportunity in favor of whites were all reflections of an economy operating poorly; at the very least paying a high price in foregone output, a narrow calculus presumably acceptable even to positive economists, for indulging in behavior which on ethical grounds could be regarded as reprehensible.

Mainly Myrdal viewed Americans as people made profoundly uncomfortable by the gap between national ideals and actual economic performance even while they had enormous difficulties in altering any part of the system-including their own attitudes-which produced the disparities and the conflicts.

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1 Gunnar Myrdal, *American Dilemma*, New York, Harper Bros., 1944.

Into this world of young Phil Klein–s thinking about economic problems came Keynes– *General Theory*[2] Like Myrdal, Keynes was not presenting a pristine and perfect system for our admiration. Rather he was looking at the obviously flawed system around him and asking why it was operating so poorly. His goal, as every sophomore economics student of the 1940s must have learned, was to save the system. In the mid-forties came the Beveridge Report in the United Kingdom, suggesting that in addition to Keynes– concern about the role of goverment in maintaining full employment one could legitimately assign government-in what he termed "a free society" — responsibility for guaranteeing to all the minimal provisioning for a variety of basic needs including retirement, sickness, accident, widowhood, guardianship for minors, temporary unemployment, maternity, and funerals.[3] When, after the Second World War we passed the Full Employment Act of 1946 I regarded it as our start toward Beveridge–s freee society and as of a piece with Myrdal–s American Creed.[4]

In my youth, therefore, I believed that economics was critically involved with what Dewey would have termed meaningful "ends in view."[5] Under the impetus of a dynamic technology via the means-ends continuum, people produce and reproduce, always for their own time, a "strategy of progress" — both economic and societal, although "the triumph of imbecile institutions", to recall Veblen–s telling phrase, can slow us down for long periods of time.

I was drawn to economics, in short, because I was angry at the racism all around me; I was anguished by the poverty I saw. I thought the discipline of economics offered a way to tackle the critical link between the two and so enable a social scientist to exercise compassion. The work to be done in confronting society–s most compelling challenges seemed to those of us struggling in Texas in the 1940s to require studying political economy to discover why U. S. economic performance was so flawed.

Yes, undoubtedly much good work in applied economics is done today by all sorts of economists studying economic problems both in and out of government. But what is the contribution being made to economic progress by the heart of the discipline-its theory? Economic theory need I remind you is the source of much of the discipline–s pride. It is surely the justification for labelling itself the Queen of the Social Sciences.

A question I ask, therefore, in all seriousness, is whether or not in economics the profession thinks one can be scholarly or dispassionately analytical and also exhibit anguish, compassion, or anger? It is still fashionable to regard "positive economics" as objective-therefore scholarly — and "normative economics" as suspect because it "lacks objectivity". Institutionalists have never bought this, but I charge that economists today who exult in "equilibrium" and urge "the freeing of markets" almost never look at the actual operation of the economy we in fact have. Forty-six years ago Ayres wrote "Physics no longer hymns the 'natural harmonies– of the universe; but economics does."[6] Today, I ask, "What kind of allocation system is consonant with our theorists– "equilibrium?"

A PRAGMATIC VIEW OF THE U. S. ECONOMY

Almost any set of current U. S. social indicators will shed light on this question. Among 25 countries studied by the OECD more than half the countries have more doctors per 1000 inhabitants than the U. S. And only five countries have higher infant mortality rates. It is perhaps not surprising that Portugal and Yugoslavia have higher rates, but it ought to raise basic questions about our system that Finland, Iceland, and Spain — to take but threee cases — have much lower rates.[7] Infant mortality rates tell much about basic national priorities. The link between poverty and race, confirming Myrdal–s view yet again, is here clearly revealed. In 1986, the last year available for such comparisons, the U. S. white infant mortality rate based on deaths in the first year for every 1, 000 live births was 8.9%, for Blacks it was 18%. Of thirty-five countries studied by

2 John Maynard Keynes, *The General Theory of Unemployment, Interest, and Money*, New York, Harcourt Brace and Co., 1936.

3 Cf. William F. Beveridge, *Full Employment in a Free Society*, G. Allen Unwin Ltd., 3rd Edition, 1945.

4 Edwin G. Nourse, first Chairman of the Council of Economic Advisors called the Full Employment Act of 1946 an effort "...to have economic scientist, economic engineer, and economic politician teamed in conscientious joint enterprise to find ways by which we can live and work together most harmoniously and most productively in free association. "Edwin G. Nourse, *Economics in the Public Service*, New York, Harcourt, Brace and Company, 1953. p. 28. As I hope will become clear in the text it is my judgment that in recent years the economic scientist-that is, the theorist, has, explicitly left the team.

5 The phrase, basic to the instrumental theory of value, is Dewey–s. *Cf. Theory of Valuation*, Chicago: University of Chicago Press, 1939. *Cf.* also the discussion in Marc Tool, *The Discretionary Economy*, Santa Monica, Califomia, Goodyear Publishing Company, Inc., 1979., p. 283.

6 Clarence E. Ayres, The Theory of Economic Progress, Chapel Hill, The University of North Carolina Press, 1944, p. 66.

7 OECD, *Economic Surveys*, 1990, Basic Statistics: International Comparisons.

the Department of Health and Human Services only Hungary and Chile had rates higher than 18%. Twenty-one had lower rates than the average for all Americans.[8]

Shall we contemplate education, which even to the most normative-eschewing mainstream economist ought to suggest increasing the potential productivity of young human inputs? 1983 produced the report, "A Nation at Risk" in which the National Commission on Excellence in Education suggested that the U. S. educational system by any number of criteria was woefully inadequate.[9] There is little dispute that we have an educational system far below what our resources would permit, less successful than that in many other industrial countries, and deteriorating especially in the past ten years.

It has been reported that only one-fifth of the eligible children ever got enrolled in Head Start programs. It may matter tragically less than we might think. After 25 years experience with Head Start a recent study concluded "that a one year program, with little follow-up once children reach school, cannot combat the ill effects of poverty."[10] The 1980s saw U. S. teen-age pregnancies rise to one million a year, well above the level in most other industrialized countries, and 375,000 babies being born annually with drugs in their systems.[11]

What all this means, I conclude, is that improving the educational system, difficult as it might be in affluent areas, is a virtually intractable problem among the poor.

This is not all. From 1973 to 1987, the income share of the top fifth increased from 41.1% to 43.7% and even more disturbing, the share of the lowest fifth declined from 5.5% to 4.5%[12] Thus during the recent expansion (our longest peacetime expansion) the percentage living in poverty far from decreasing actually increased. Worse still, a related study found that in the twenty years ending in 1987 the percentage of U. S. children living in poverty increased from 17.6% to 20.6%. The United States, in sum, has the highest child poverty rate of any country in the industrialized world.[13] But our markets, presumably, clear.

8 *New York Times*, Aug 6, 1990, p. Bl 1.

9 *New York Times*, D. 20, 1989, B 9.

10 *New York Times*, Feb. 14, 1989, A 1:2.

11 *Cf. New York Times*, Dec. 20, 1989, B p. 9 *op. cit.* and *New York Times*, Jan. 9, 1990.

12 Leonard Silk reporting on a study by Sheldon Danziger, Peter Gottschalk, and Eugene Smolensky in the May 1989 *Proceedings* of the Am. Econ. Assoc. See *New York Times*, May 12, 1989, D2, 1.

13 NYT. *op. cit.*

All this suggests that poverty in the U. S. is not only still linked very much to race, but those in poverty, white and black, fare less well in the U. S. than they do in many far poorer countries, with different allocation systems. Poorer countries appear to have better health care systems and better educational systems than are found in the U. S. In sum, many participants in the economy we in fact have, fare appallingly badly. Must a "good" economist remain impassive when confronted with all this information? I ask such questions not because all economists ought by rights to be working on these problems. I ask them because they are germane to a question rarely asked in economics: what is the function of economic theory?

ECONOMIC THEORY-RATIONALIZING THE STATUS QUO

As a profession and as a discipline contemplating its underlying theory I would argue that economists remain curiously unmoved by evidence of economic failure. "Positive" economic analysis can seemingly focus on "the miracle of the free market" notwithstanding all the indicators of failure. "The social safety net" may have huge holes in it, but the gigantic rationalizing machine that is modern economic theory (both micro — and macro) churns out ever more ingenious excuses for not intervening. Unemployment is "natural"; the business cycle is an "equilibrium process"; economic agents are "rational" and so discount any effort to intervene except for surprises or shocks. There is no need to worry about lack of competition in markets if entry is conceivable — that is, if markets are "contestable." Regulations destroy the incentives of the entrepreneurs — as do taxes. Trade unions weaken and possibly destroy the system by making wages less flexible — therefore exacerbating inflationary pressures (a charge which, curiously, is not levelled at the impact of corporate profits on prices).[14]

Mainstream theorists appear to operate on the assumption that "freeing the market" is the main concern to which they must pay attention. The problems previously alluded to are either ephemeral — part of the equilibrating process — or "social" and so not within their purvue. But an economy that is constantly referred to by economists as a "miracle" to be emulated by all other countries is being caricatured when a

14 Gardiner Mean-s balanced concern for "administered prices", by which he meant "cost-push inflation," has long since been replaced by one-sided "wage-push inflation." *Cf.* Gardiner C. Means, "The Reality of Administered Prices," in *The Corporate Revolution in America*, Crowell-Collier Press, New York, 1962, pp. 77-96.

"positive" allocation theory can ignore all these human catastrophes and insist that government must not intervene or dampen investor incentives in market-clearing.

If the government has been involved and there is failure, mainstream economists, as we have seen, frequently charge regulatory failure. If all else fails one can charge that government officials are corrupt or corruptible and so cannot be trusted to monitor the system even if monitoring were otherwise a good idea.

If there has been no effort at government regulation then the failures are either "natural" or the consequences of not waiting long enough for "market forces" to work. How long is long enough?

In the post-war period enduring recession and high unemployment to rid ourselves of inflation even temporarily have been widely regarded as unfortunate but necessary. I studied the use of recession as a technique for eliminating inflation in eight industrialized countries in the period roughly from the early 1950s to the mid 1980s. These eight countries exhibited a total of forty nine recessions. In more than a quarter of the casses the recession did not succeed in bringing the inflation rate down at all. For the rest, the average length of time inflation stayed down was eleven months — scarcely a stunning victory — and in about one fifth of the cases the inflation rates were rising even before recession ended.[15]

Nonetheless, cyclical unemployment is the price, we are told, we have to pay for other goals; non-inflationary goods and factor market clearing is the principal result sought.

In the pursuit of "natural" labor market clearing, we can endure high unemployment indefinitely (twelve years in the Great Depression). We can observe any necessary percentage of the population falling into poverty. We can tolerate any number of "discouraged workers" who stop looking for a job and so, by making the labor force smaller actually make the unemployment rate go down. Disequilibrium in employment is in any case a lesser order of problem than price disequilibria, and can be interpreted for as long a time as is necessary as a possibly unfortunate but necessary part of the equilibrating process requiring time and patience, therefore, but not intervention.

More generally, mainstream theorists have little to say about those who have been so mangled by the society we have created that through deprivations at home, discrimination, lack of education or educational opportunity, unacceptable health care, inadequate motivation, etc, they never get the chance to become the productive inputs they could have been.

In sum, mainstream theorists are a proud and busy lot. They mostly rationalize failures, suggest the futility of trying to improve performance, or occupy themselves with other matters — spinning out multivariate models which presumably find their justification in either the challenges to logic they surmount, or the awesome if unreal world they depict. It is not too strong a statement to suggest that today both micro and macro economic theory is proud of its internal logic and elegant precision. But it is not overly concerned with seeking explanations which will enable us to relieve any of the problems we have been discussing or to make the economy perform better.

CONFRONTING ECONOMIC FAILURE

Little attention, we have noted, is paid to the implications of all this for the theorists– perspective toward economic failures. We have seen that what it pleases us to call the social safety net is replete with very large holes. The social work profession may strive to improve the situation, but economists largely look the other way. There is a great deal of talk in this country about "the disadvantaged," although we have charged that relatively little of it comes from economists, and certainly not from economic theorists. The thrust of much mainstream theory must be that people are "voluntarily disadvantaged."

"New classical" theorists conclude that much unemployment is "voluntary." Consistency requires that they go one step further. Along with voluntary unemployment, they clearly need to confront voluntary homelessness, voluntary starvation, voluntary high infant mortality, voluntary poor health, voluntary premature death, voluntary slums, voluntary lack of education or training, voluntary exposure to criminal assault, and voluntary human inadequacy and failure. If, given enough time, the market corrects all disequilibria, which would be the rubric under which all these conditions — were they involuntary — would fall, it must follow that "market failure" is not a viable general explanation to call upon for any of these assorted misfortunes because then significant government action might be required. The essential article of faith is that the legitimate sphere for government is modest. These conditions generally, therefore, must presumably be passed off as part of a market-clearing process which just happens to be a wee bit slow.

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15 Philip A. Klein, "What–s Natural About Unemployment?," in P. A. Klein, Editor, *Analyzing Modern Business Cycles*, Armonk, New York, M. E. Sharpe, Inc., 1990, pp. 293-301.

At the very least economists should be concerned about the opportunity cost to society of having "disadvantaged" people. How much GNP is thereby foregone; how much growth?

PRODUCTION POSSIBILITIES — ACTUAL AND POTENTIAL

All economists acknowledge that the rate at which the production possibility frontier is pushed outward depends critically on the rate of technological development; and that the institutionally sanctioned production possibility frontier is always well within the technological frontier. Economists profess, therefore, to being cognizant of the output and growth foregone via institutional restrictions on technologically possible production. By the conventional efficiency standards of the discipline, the greater the resources the more lamentable ought we to regard the gap between actual and potential production. Therefore, poverty in the United States is a far greater economic scandal than in — say — Bangladesh. Few would deny that the U. S. has a crumbling infrastructure, a deteriorating educational system and a dangerous concentration of poverty and lawlessness in our great cities.[16] And we must still acknowledge massive discrimination. Nonetheless, all these are presumably consonant with "equilibrium."

Ayres was right. In appraising economic performance equilibrium is the least of it. The relative insensitivity on the part of economic theorists to economic failure — by which I mean failure to train and utilize human resources in the ways which the economic logic of optimizing productivity ought to commend, seems indisputable. The lure of sanitized models, elegant in their carefully controlled multivariate unreality, is, we have seen, seemingly irresistible.

Why is this? I would argue it is partly because economic failure is difficult to quantify. Myrdal was untroubled by this. Today with the possible exception of Gary Becker–s work, the difficulty in quantifying discrimination, renders it and its attendant consequences problems economists are loath to tackle. Despair, discouragement, and resignation can–t be modelled. If I appear discouraged about our discipline it is because the charge I am levelling — that mainstream theory sacrifices relevance for rigor — is far from new. But far from impressing our colleagues, they have in the years since the charge was first levelled gone for ever more rigor at the cost of more and more relevance. The advent of the computer has merely aggravated the trend. Now rather than attempting to include fewer restrictive assumptions so that the results might conceivably have greater relevance, the movement is in the other direction.

So while game theorists can tell us with great elegance what will happen to resource allocation between two people and two goods under a variety of sets of imaginatively restrictive assumptions, hardly any one worries about the real people in the real economy who end up with no goods.

THE ASYMMETRY OF MAINSTREAM VIEWS OF MOTIVATION

One of the implications of what we say is that there is much hypocrisy in the protestations of orthodox theorists that "free market solutions" are invariably the ones which further the life process most significantly.

Much of the conservative rhetoric of the past decade or more has suggested that entrepreneurial motivation, for Schumpeter the major locomotive for converting technological progress into a more efficient economy, is today very fragile.[17]

How else explain the continued insistence that corporate taxes are a major culprit behind flagging productivity in American enterprise? Today the reduction in the capital gains tax is widely advocated as a major way to "restore incentive" to the system. Incentive, of course, is for entrepreneurs to produce.

One hears virtually nothing about declines in incentive perhaps extant elsewhere in the economy. Some possibilities: discouraged workers may have lost the incentive to go out and look for a job. Unskilled workers may have little incentive to seek new skills and new training. Students may have inadequate incentive to stay in school or to apply themselves. Like entrepreneurial incentives, programs to bolster all these and other incentives can be imagined (e. g., Scholanships, job training programs, etc.). Such programs "require money" and that means taxes, definitionally bad. A reduced capital gains tax also costs money, but because it affects entrepreneurs rather than any other factor of

16 *Cf.* for example, Henry Kaufman, *New York Times*, 9/23/90, p. 13.

17 Schumpeter would say that "competitive capitalism had tumed into "trustified capitalism", the latter being ruled by inertia more than the quest for profits. It is essentially this explanation which causes Schumpeter to conclude that capitalism would not survive. It was "too successful." *Cf.* Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy*, New York, Harper and Brothers, 1942, 1947. The terms "Competitive" and "trustified" capitalism were introduced by Schumpeter in his article, "The Analysis of Economic Change," *Review of Economics and Statistics*, XVII, No. 4, May 1935, pp. 2-10. Reprinted in John J. Clark and Morris Cohen, Editors, *Business Fluctuations, Growth, and Stabilization*, New York, Random, House, 1963, pp. 465-59, p. 53.

production it escapes the free market rhetoric and the chaarge that it will cost money that would have to be made up someplace else.

As between encouraging workers so as to increase consumption and encouraging entrepreneurs so that there are goods to buy we have the classic economic debate about whether growth is best stimulated on the supply or the demand side. Keynes was right here as frequently — we should "advance on both fronts at once."[18] Whether producers produce to meet demand, or consumers demand because they have been hired to produce and so have income is an absolutely futile debate.

In sum the current emphasis on "freeing the market" is disingenuous at best. Entrepreneurs– fragile incentives need bolstering; trade unions are an impediment to the execution of the entrepreneurial function. Governmental intrusion into the operation of the "free market" is, therefore, asymmetrical. Bailing out Lockheed or Chrysler is O.K. A government plan, regardless of the cost, to save bankrupt Savings and Loan Companies is "in the public interest." But programs which focus on making labor more productive, or freeing workers from concern about the stability and security of their lives, improving their education or health care system etc. are definitionally declared "fiscally irresponsible". They interfere with the operation of the market. Clearly some factors are to be left more free as well as better equipped to cope than others.[19]

The task of economic theory is not to free the market. For institutionalists, the task is, in light of ongoing technology, resources, and evolving societal values, to offer expert advice and guidance on how best to enhance the lives of all the participants in that economy. Said Keynes, "It may well be that the classical theory represents the way in which we should like our economy to behave. But to assume that it actually does so is to assume our difficulties away."[20] As I long ago remarked, the economist–s "propensity to assume" has been growing — not diminishing — ever since.[21]

No central plan, however bureaucratic and bungling, could treat participants with greater insensitivity than a "free market" not monitored in its operation by the assumedly compassionate society in which it operates. This central institutionalist tenet is what, at the end of the day, separates us from other schools of thought.

The institutionalist perspective of economics as a normative science involved in the ongoing societal task of defining progress was Myrdal–s point of departure. It is the point where this discussion began. The appropriateness of this perspective is, in my judgment, revalidated every single day.

CONCLUSION

The situation described can be summarized. Our micro-theorists today assure us that, left to their own devices "markets clear." Anti-trust, regulation and other types of intervention are regarded mostly as counter-productive interferences with market forces, and so are definitionally bad. Our macro theorists meanwhile tell us that the glitches we observe in macroperformance are part of a natural equilibrating process. Whether "real" or "equilibrium," business cycles do not require intervention. The major thrust of mainstream theory, therefore, is that the economy is functioning smoothly or if not, no intervention could improve its performance. The elegance, sophistication, and precision with which these conclusions are reached is a source of never ending professional pride.

But in the face of all this micro and macro equilibrium we see that the division of the economic pie is getting more, not less unequal. Even more importantly, the condition of the have-nots in the U. S. economy is not only worsening, but has long been and continues to be worse by many measures than is the case for many other countries with far fewer resources (both absolute and per capita) than is the case for the U. S. Finally, lest we become professionally concerned about this state of affairs, we institutionalists are told to remember that economics is a positive science.

Clarence Ayres was right in 1944 when he declared that economists cannot rid themselves of the notion that "equilibrium is good."[22] The common view, moreover, is that our system is performing so spectacularly that it should be exported to the entire world. This view is widely held in spite of the gap we have noted between the technologically possible and institutionally sanctioned output, which arguably is the largest in the industrialized world. There is mounting evidence which should concern us: the increasing failure of the eco-

18 John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, New York, Harcourt, Brace and Company, 1936., p. 325.

19 For a fuller discussion of this point see P. A. Klein, "Changing Perspectives on the Factors of Production," JEI, 22, 3 September 1988, 795-809.

20 J. M. Keynes, *op. cit.*, p. 34.

21 P. A. Klein, "Demand Theory and the Economist–s Propensity To Assume," JEI, 6/73.

22 C. E. Ayres, *op. cit.*, p. 66.

nomy to provide satisfactorily for those at the bottom; the growing percentage of those living in poverty, the ongoing failure to marshal our abundant resources so as to begin even remotely to enable all human inputs to be trained so as to produce to their potential; and the continuing evidence that the presumed basic source of progress in our mixed capitalist system — entrepreneurial initiative — has become extremely fragile.

Economists ought to be expert in suggesting the benefits in terms both of enganced output and enhanced quality of life, of eliminating the sources of lowered productivity which happen also to raise social, ethical, and philosophical challenges. Economists need to confront professionally the output implications of societal discrimination. Ignoring the perpetuation and even increase in the dooming of some — often before birth — by virtue of race, sex, ethnicity, sexual orientation, or class to a life of unfulfillment or poverty has profound economic implications. How to confront the societal consequences of being raised in an environment which stimulates little but futility, aggression, anger, inertia, mental and physical illness, crime, addictions, or ultimately endless dependency on society is very much a part of the challenge to responsible economic analysis.

Professional concern about these matters is not a case of the economist poaching on the territory of others. The best that participants in economic activity can do is respond to the signals, price and otherwise, given off by the economy including (but not limited to) the market. Political scientists know that how questions are framed affects political decision making. Similarly participans in economic activity cannot respond to signals that are not presented — they can chose only among the possibilities which the system offers them. The market system does not exhibit all possible choices via neutrally transmitted price signals. Monitoring the signals eliciting choice, whether price or non-price, is an ongoing responsibility of any economy that aspires to efficiency, equity, stability, freedom, and humaneness. Such monitoring determines the scope of the public sector by setting the parameters which determine its roles as referee of the private sector and provisioner of last resort.

Institutionalists regard theory as a never ending challenge to derive from the flawed performance of the ongoing system useful guidelines as to how its performance can be brought more closely in line with evolving societal values. There are no rationalizations for failure or endless patience with success which arrives only in some very long run.

"Equilibrium" as an ultimate state in a system which nonetheless tolerates gross human misery, definable by even the most superficial application of current values, cannot be regarded either as an efficient or sufficient outcome of theoretical analysis. This must most particularly be the case for a mainstream theory which sets such great store on the notion of efficiency, when it is applied to a country like the U. S. More than any nation on the globe the U. S. is replete with the resources to reduce or eradicate human misery by unleashing the vast productive potential of its resources, human and non-human, freed from the constraints of the racism and sexism, which have always driven an enormous wedge between our actual and our potential output. so wiewed our system is not a successful system nor even a satisfactory system, let alone a miraculous system.

What has just been said is most particularly a statement about the economic performance our of an economic system, NOT a judgement about society from the vantage point of some other social science from which the pristinely pure economist can safely distance him or herself. Only recognition that current economic performance is far less than ideal and far removed from what our resources and technology would permit provides a basis for improving economic theory and performance. This means offering realistic options to a society attempting to deploy *all* its resources in optimal fashion in support of its strategy for progress. Absent this crucial recognition, no amount of sophisticated assumedly value-free "positivist" analysis will lead to a pragmatic economic theory likely to ameliorate any of the flaws we have been discussing. It will only enable economic theorists to offer yet one or several more variants — albeit oftentimes brilliantly clever variants — of the economic theory equivalent of Nintendo.

If the new classical economists are correct and interventionism cannot on the basis of current theory improve the performance of the economy, the obligation of responsible economists to work at improving theory and so improving policy is even more compelling, particularly in view of the enormous departures from optimal production and distribution discussed here.

Psychiatrists don–t assume away their patients–symptoms; they work at helping them disappear. Baseball managers don–t assume all their players either bat 1000 or are lazy; they search for techiques to improve their hitting. Policemen don–t assume the streets are safe; they contemplate ways to increase their safety.

Generals don–t assume the enemy will surrender: they try to devise winning strategies. Orthopedists don–t assume broken bones are non-existent or will set and heal themselves, they intervene. Intensive care units are not set up to teach patients the virtue of patience. In no other field do its practitioners almost invariably assume that performance is either flawless, can correct itself, or is beyond help. But these are the alternatives on which mainstream theorists dote. Is it not time — at last — for the Queen of the Social Sciences to join other fields of human endeavor? Is it not time — finally — for economic theorists to look at the world around them, and ask themselves, in all humility, "How can we help?"

The challenge to be involved in enhancing the life process is all that gives economics its justification. Progress in this quest is all that can give this discipline any real cause for pride. Professional pride and legitimate bases for such pride appear to be inversely related.

And so I end where I began.

I was not wrong to interest myself in economics. But not very much of the theoretical work that I have seen in my professional life appears to have confronted the essential challenges.

I thank you again for the great honor you pay me today with this award.

Philip A. Klein, Ph. D.

Sažetak

U članku autor iznosi svoje recentne stavove o ekonomskoj znanosti i njezinoj kompetenciji za rješavanje najvažnijih problema razvoja s aspekta razlika između osnovnog pravca ekonomske znanosti (mainstream) i institucionalne ekonomije (odnos ciljeva razvoja i društvenih vrijednosti, nezaposlenost, inflacija, siromaštvo, stabilnost, tržište vs. regulacija privrede...) Pri tome objašnjava utjecaj različitih ekonomskih učenja (Ayres, Myrdal, Keynes, Veblen, Schumpeter) koja su ga opredijelila za ekonomsku profesiju, a kasnije za pravac institucionalne ekonomije. Ekonomisti trebaju biti eksperti koji će biti senzibilni na različite signale iz okruženja kojima se upozorava na diskrepanciju između performance sistema i promjenjivosti društvenih vrijednosti, a u cilju ostvarivanja optimalnog korištenja svih razvojnih resursa društva.