

FIVE FUNDAMENTAL ERRORS

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FIVE FUNDAMENTAL ERRORS

The Long Version, by Jay Hanson -- <http://www.dieoff.org/>

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Modern economics is nothing more than "Social Darwinism" (the politics -- NOT the science) as first revealed by God to the Dominican Friar St. Thomas Aquinas 750 years ago, and then perfected by the Physiocrats 230 years ago. Unfortunately, God didn't bother to reveal the Laws of Thermodynamics to St. Thomas at the same time as he was doing "free markets". But then it's not too surprising considering the fact that God also neglected to mention that the Earth orbited the Sun.

Any ONE fundamental error in Neoclassical theory should be sufficient reason to reject conclusions based upon that theory. Here are five fundamental errors in the theory:

#1. A fundamentally incorrect "method": the economist uses "correlation" and "post hoc, ergo propter hoc" (after-the-fact) reasoning, rather than the "scientific method" and biological theories of behavior:

"Economists enamored of pure markets begin with the theory, and hang models on assumptions that cannot themselves be challenged. The characteristic grammatical usage is an unusual subjunctive -- the verb form 'must be.' For example, if wages for manual workers are declining, it must be that their economic value is declining. If a corporate raider walks away from a deal with half a billion dollars, it must be that he added that much value to the economy. If Japan can produce better autos than Detroit, there must be some inherent locational logic, else the market would not dictate that result. If commercial advertising leads consumers to buy shoddy or harmful products, they must be 'maximizing their utility' -- because we know by assumption that consumers always maximize their utility. How do we know that? Because to do anything else would be irrational. And how do we know that individuals always behave rationally? Because that is the premise from which we begin. The truly interesting institutional questions -- the disjunctures between what free-market assumptions would predict and the actual outcomes -- are dismissed by the tautological and deductive form of reasoning. The fact that the real world is already far from a perfect market is ignored for the sake of theoretic convenience. The dissenter cannot challenge the theory; he can only describe the real world." [p. 9]

"There is at the core of the celebration of markets a relentless tautology. If we begin, by assumption, with the premise that nearly everything can be understood as a market and that markets optimize outcomes, then everything else leads back to the same conclusion -- marketize! If, in the event, a particular market doesn't optimize, there is only one possible inference: it must be insufficiently marketlike. This epistemological sleight of hand is an astonishing blend that blurs the descriptive with the normative. It is a no-fail system for guaranteeing that theory trumps evidence. Should some human activity not, in fact, behave like an efficient market, it must be the result of some interference that should be removed or a stubborn human refusal to appreciate markets. It cannot possibly be that the theory fails to specify accurately how human behavior works." [p. 6, **EVERYTHING FOR SALE**, Robert Kuttner; Knopf, 1997; <http://www.amazon.com/exec/obidos/ASIN/0394583922>]

"It was not the methods of science that were appropriated by the early neoclassicals as it was the appearances of science, for the early neoclassicals possessed a singularly inept understanding of the physics they so admired... [Neoclassical economists attempt] to reduce all social institutions such as money, property rights, and the market itself to epiphenomena of individual constrained optimization calculation. All these attempts have failed, despite their supposed dependence upon mathematical rigor,

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because they always inadvertently assume what they aim to deduce... Conservation principles are the key to the understanding of a mathematical formulation of any phenomenon, and it has been there that the neoclassicals have been woefully negligent." [p. 6, **AGAINST MECHANISM: Protecting Economics from Science**, by Philip Mirowski; Rowman and Littlefield, 1988; <http://www.amazon.com/exec/obidos/ASIN/0847676951>]

"My analysis showed that the neoclassical theorist of economic behavior is confronted with the dilemma of restricting his or her analysis to a case-by-case taxonomy of individual agent choice, given the inaccessibility to mental states, or grounding his or her explanatory theories on the normative heuristic of rational choice. Neither alternative yields scientific results." [p. 151, **SCIENCE, RATIONALITY, AND NEOCLASSICAL ECONOMICS**, L.D. Keita; Delaware, 1992; <http://www.amazon.com/exec/obidos/ASIN/0874134102>]

SCIENTIFIC METHOD

The "scientific method" is the ONLY way yet discovered for discovering truth amid a world of lies and delusion. The simple version looks something like this:

- a. Observe some aspect of the universe.
- b. Invent a theory that is consistent with what you have observed.
- c. Use the theory to make predictions.
- d. Test those predictions by experiments or further observations.
- e. Modify the theory in the light of your results.

Go to step c. [http://www.xnet.com/~blatura/skep_1.html]

ECONOMIST METHOD (by analogy)

Did I ever tell you about my cat? I have a cat that can predict the stock market!!!!

I got this cat about ten years ago from an old lady who said that it could predict the stock market. She said that if the cat "meowed", the stock market would go up on that day. I didn't believe it at first, but sure-enough it was true. Over the last nine years the cat was right more than it was wrong -- I made millions.

About a year ago, a car killed my cat. I really loved that cat so I had it stuffed and put on the wall. You know what? The cat doesn't meow anymore, but the stock market doesn't go up anymore either. So I am beginning to think that the cat actually CAUSED the stock market to go up or down. Numbers don't lie do they?

Now I am not sure whether the meow was cause or effect... I am sure I can find out which by studying economics. (Although some say there are virtually an infinite number of explanations for the same observation, and only the "scientific method" can separate fact from fiction.)

What do you think? Was the meow cause or effect? Or both? Or neither? Economists run into this problem all the time...

#2. A fundamentally inverted world view: the economist sees the environment as a subsystem of the economy, rather than the other way around. In other words, economists are trained to believe that natural resources come from "markets" rather than the "environment". The historical analogy is

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Johann Kepler and Tycho Brahe watching the dawn together. Kepler sees the sun come into view as the earth turns; Brahe sees the sun begin its daily journey around a static earth.

The corollary is that economists believe that "man-made capital" can substitute for "natural capital". Nobel Laureate Robert Solow: "... the world can, in effect, get along without natural resources ... at some finite cost, production can be freed of dependence on exhaustible resources altogether... [1974 lecture to the American Economic Association cited in p. 117, **STEADY-STATE ECONOMICS**, Herman E. Daly; Island Press, 1991; <http://www.amazon.com/exec/obidos/ASIN/155963071X>]

But the First Law of thermodynamics tells us there is no "creation" -- there is no such thing as "man-made capital". Thus, ALL capital is "natural capital", and the economy is 100% dependent on the "environment" for everything.

#3. A fundamentally incorrect view of "money": the economist sees "money" as nothing more than a medium of exchange, rather than as social power -- or "political power":

"MONEY: Anything which is widely acceptable in exchange for goods, or in settling debts, not for itself but because it can be similarly passed on, has the character of money since it serves the primary function of money, i.e. a means of payment. As a means of payment money is an entity which is transferred when a payment is made; as such it acts as a MEDIUM OF EXCHANGE, a function essential to any economy other than the most primitive." [p. 285, **THE MIT DICTIONARY OF ECONOMICS**, Fourth Edition; <http://www.amazon.com/exec/obidos/ASIN/0262660784/brainfood.a>].

But even the casual observer can see that money is social power because it "empowers" people to buy and do the things they want -- including buying and doing other people: politics.

If employers have the freedom to pay workers less "political power", then they will retain more political power for themselves. Money is, in a word, "coercion", and "economic efficiency" is correctly seen as a political concept designed to conserve social power for those who have it -- to make the politically powerful, even more powerful, and the politically weak, even weaker.

For a surrealistic glimpse into the utterly insane world of a typical economist, see <http://minneapolisfed.org/research/sr/sr140.pdf>

#4. A fundamentally incorrect view of his raison d'être: the economist sees "Homo economicus" as a "Bayesian utility maximizer", rather than "Homo sapiens" as a "primate":

"Those who believe society can best be understood as a series of markets begin by positing a rational, calculating individual whose goal is to maximize 'utility.' This premise says everything and nothing, since it is true by definition in all cases. But it is a key aspect of the market model, since it is the behavioral part of the logical argument that whatever the market decides must be optimal." [p. 41, Kuttner, 1997]

"Neoclassical economics is based on the premise that models that characterize rational, optimizing behavior also characterize actual human behavior." (R. Thaler, 1987).

"One of the peculiarities of economics is that it still rests on a behavioral assumption -- rational utility maximization -- that has long since been rejected by sociologists and psychologists who specialize in studying human behavior. Rational individual utility (income) maximization was the common assumption of all social science in the nineteenth century, but only economics continues to use it.

"Contrary behavioral evidence has had little impact on economics because having a theory of how the

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world "ought" to act, economists can reject all manner of evidence showing that individuals are not rational utility maximizers. Actions that are not rational maximizations exist, but they are labeled "market imperfections" that "ought" to be eliminated. Individual economic actors "ought" to be rational utility maximizers and they can be taught to do what they "ought" to do. Prescription dominates description in economics, while the reverse is true in the other social sciences that study real human behavior." [p. 216, **DANGEROUS CURRENTS**, by Lester Thurow; Random, 1983; <http://www.amazon.com/exec/obidos/ASIN/0394723686/brainfood.a> ; <http://dieoff.com/page162.htm>]

Economic Nobel Laureate Herbert Simon: "Subjective expected utility (SEU) theory lies at the foundation of most contemporary economics. In the probabilistic version of SEU theory, Bayes's rule prescribes how people should take account of new information and how they should respond to incomplete information. But empirical studies find that decision makers often overreact to new information, in violation of Bayes's rule." [**DECISION MAKING AND PROBLEM SOLVING**, by Herbert A. Simon and Associates; National Academy Press, 1986; <http://dieoff.com/page163.htm>]

In other words, contemporary economics and econometrics is WRONG from the bottom up -- and economists know it. The entire discipline of economics is based on a lie. Moreover, if human behavior is not the result of mathematical calculation -- and it isn't -- then in principle, it's *impossible* for economists to EVER get it right.

#5. A fundamentally incorrect view of economic élan vital: the economist sees economic activity as a function of infinite "money creation", rather than a function of finite "energy stocks" and finite "energy flows".

Economic students are taught that banks "create" money every time they make a loan, and that the economy is powered by money instead of energy. The juxtaposition of these two data (the first is true, the second is false) leads even Nobel Prize-winning economists to conclude they have discovered a perpetual-motion machine:

"Should we be taking steps to limit the use of these most precious stocks of society's capital so that they will still be available for our grandchildren? . Economists ask, Would future generations benefit more from larger stocks of natural capital such as oil, gas, and coal or from more produced capital such as additional scientists, better laboratories, and libraries linked together by information superhighways? ... in the long run, oil and gas are not essential." [p. 328, **ECONOMICS**, Nobel Laureate Paul Samuelson and William Nordhaus; McGraw-Hill, 1998; <http://www.amazon.com/exec/obidos/ASIN/0070579474/brainfood.a>]

No person has had a greater influence on the thinking of experts who have become government regulators of the world's oil and gas industries than economist Morris Adelman: "There are plenty of fossil fuels and no limit to potential electrical capacity. It is all a matter of money." [p. 483, **THE ECONOMICS OF PETROLEUM SUPPLY**, by M. A. Adelman; MIT, 1993; <http://www.amazon.com/exec/obidos/ASIN/0262011387/brainfood.a>]

But of course, economists like Samuelson, Nordhaus, and Adelman are wrong. The First and Second Laws of thermodynamics tells us there is a limit to potential electrical capacity -- it's *not* all a matter of "money", it's all a matter of "energy".

The sudden -- and surprising -- end of the fossil fuel age will stun everyone -- and kill billions. Once the truth is told about gas and oil (it's just a matter of time), your life will change forever

Envision a world where freezing, starving people burn everything combustible -- everything from forests (releasing CO₂; destroying topsoil and species); to garbage dumps (releasing dioxins, PCBs, and heavy metals); to people (by waging nuclear, biological, chemical, and conventional war); and you have seen the future.

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Envision a world utterly destroyed by a lethal education.