

THE DISREGARD OF REALITY

Peter Bauer

High Hopes and Emerging Doubts

According to Hegel, the Owl of Minerva spreads its wings only at dusk. The later stages of one's career should be propitious for discerning tendencies and forces at work in society. Earlier preoccupations with specific studies can be helpful for subsequent reflection on wider issues but meanwhile absorb time and attention.

Like many of my contemporaries, fellow undergraduates and young academics alike, in my early days I expected much from economics, both in public policy and in intellectual interest. The great advances in the subject and the high intelligence of my academic colleagues seemed to confirm these hopes. Nevertheless, from about the early 1950s increasing claims for economics by its practitioners ran parallel with my own increasing doubts and reservations.

I came to realize for instance that economists systematically exaggerate the impact of their ideas. In an oft-quoted passage in *The General Theory*, Keynes insisted that in the long run the world is governed by little else than the ideas of economists and political philosophers. If this were true, the world would have enjoyed the benefits of free trade for at least 100 years. Apart from being obviously unsustainable, Keynes' opinion is also naively parochial in attributing exclusive influence to the ideas of economists and political philosophers. He neglects the impact of the founders and leaders of religious movements, including the Buddha, Christ, Mohammed, and of military commanders such as Alexander the Great, Julius Caesar and Napoleon.

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The ideas of economists do affect the wider scene; like other ideas they have consequences. As Milton Friedman has reminded us, economists can suggest possible options to politicians. But we must not delude ourselves by overstating our influence, whether in the short period or over the longer run.

Well before my retirement I came to be increasingly perplexed by what was going on in economics. I observed, in particular, a widespread disregard of evident reality, in which I include neglect of basic propositions of the subject. Impressive advances coexisted with alarming retrogression.

Unexpected Transgressions

It was in the 1950s that I first noticed the disregard of reality in economics. It was notable in two contexts: the dollar problem, and the vicious circle of poverty.

For well over a decade in the 1940s and 1950s economists wrote about an indefinitely persistent and inescapable worldwide shortage of dollars. Some of these contributions and predictions were ostensibly sophisticated. In fact, they systematically ignored the rate of exchange, that is, the price of the dollar, as well as major determinants of this price such as interest rates and financial policy. This neglect of basics soon met the fate it deserved. In the later 1950s the shortage of dollars vanished and, indeed, was replaced by a glut. Many leading economists, and not just some amateurs and novices, had overlooked that supply of and demand for dollars depend on price.¹ This particular discussion subsided with the end of the dollar shortage. But its method of approach soon resurfaced in the idea, which is still with us, that poor countries face inescapable balance of payments difficulties.

The theory of the indefinite dollar shortage was not an example of tentative steps in the construction of exciting, and potentially fruitful, theorems or analytical instruments. Nor did the ostensibly elaborate analyses hinge on novel assumptions about expectations or dynamic processes. Rather, the episode was nothing but a serious transgression.

I now come to the vicious circle of poverty. According to this notion, stagnation and poverty are necessarily self-perpetuating: poor people generally and poor countries or societies in particular are trapped in their poverty, and cannot generate sufficient savings to escape from the trap. This notion became a cornerstone of mainstream development economics. It was the signature tune of the

¹Or more precisely, quantities supplied and demanded.

advocates of foreign aid throughout the 1950s. It is still often invoked. Yet it is in obvious conflict with simple reality. Throughout history innumerable individuals, families, groups, societies, and countries—both in the West and the Third World—have moved from poverty to prosperity without external donations. All developed countries began as underdeveloped. If the notion of the vicious circle were valid, mankind would still be in the Stone Age at best.

These episodes also alerted me to the role of intellectual and political fashion in much of economics. Prominent, distinguished practitioners seem often to find it difficult to resist the vagaries and winds of fashion, even when these are ephemeral or blow them off course.

I have recently reread part of the literature of these two subjects with a mixture of incredulity, embarrassment and amusement. It looked as if the queen of the social sciences was being dethroned by her entourage.

The two examples I have taken represent unequivocal examples of intellectual retrogression made possible by the disregard of reality. In the interwar years the role of the rate of exchange in the supply of and demand for currencies was routinely recognized. And before World War II, no one would have suggested that poor societies or countries were doomed to stagnation. Historians, anthropologists, administrators, and economists then discussed in detail the impact and implications of rapid changes in less developed countries (LDCs).

Alongside these instances of evident retrogression there took place major advances in economics, including advances in international trade theory and the theory of foreign exchanges, both closely related to the lapses.

There were dissenters from the most widely articulated opinion. This was particularly so in the case of the dollar problem, but applied also to the vicious circle. Some of the dissenters had high academic credentials, yet their views did not have much impact in academic circles and did not reach a wider public. This was because on the contemporary scene, also in academe, a voice is rarely effective without an echo. Dissenters find this difficult to secure unless their dissent is modish. The exponents of the dollar problem and the vicious circle of poverty, especially the latter, were supported and encouraged by articulate groups in the academies and the media. Dissent was crowded out.

These two episodes first prepared me to question received opinion, even when endorsed by the great and the good. Since the 1950s there has been an overdose of examples where reality is simply ignored or brushed aside.

Let me take a further example. Since World War II, many academics (as well as clerics, public figures, politicians and spokesmen of the official international organizations) have argued that commercial contacts between the West and LDCs inflict economic damage on the peoples of the Third World. Sometimes it is said that Third World poverty is the result of Western neglect; but more often it is claimed that poverty results from Western oppression, exploitation, and manipulation of international trade. These widely canvassed opinions are not confined to Marxist-Leninists. (One should really say Leninists, since Marx was at times lyrical about the achievements of capitalism in transforming backward societies.) Yet as is abundantly evident throughout the Third World the poorest and most backward societies and areas are those which have fewest commercial contacts with the West, and the most advanced are those with the most extensive and diversified contacts, including contacts with those bogeymen, the Western multinationals. Throughout the Third World the level of economic attainment declines as one moves away from regions with most Western contacts, to the aborigines and pygmies at the other end of the spectrum.

Those interested in the survival of ideas may like to know that the notions of the vicious circle of poverty and of the malign economic effects of commercial contacts with the West are alive and well.

Advances in Economics

Over the period in which I have been active in academic economics I have seen remarkable advances and also, as I have just noted, lapses which amount to blatant retrogression.

Advances in knowledge are what is expected from an academic discipline, especially when it has enjoyed a large expansion of resources and of opportunities. Even a necessarily incomplete list of significant advances must include various contributions to price theory, including the recognition of transaction costs; to the role and nature of the firm, including the economics of vertical integration; to the concept and implications of social cost; to the theory of international trade and the theory of the foreign exchanges; to the analysis of the diffusion and use of knowledge; to the economics of property rights; and to the economics of political and bureaucratic processes. Some of these advances have been helpful far outside economics and have been useful to historians, anthropologists, political scientists, and demographers.

Such advances go a long way to support the sanguine expectations of my early days. So do the intellectual capacity and technical com-

petence of so many practitioners. My academic colleagues in recent years have been no less bright and competent than were most of my teachers a generation ago. If I am now perplexed, it is because I have encountered a plethora of instances of retrogression stemming from the disregard of reality.

The retrogressions are of a quite different order from what went on in economics in the past. The writings of 19th-century and early 20th-century economists were often unsophisticated, even naive. But they were not in such evident conflict with reality as is so much of the more recent literature.

The Emperor Inverted

Mathematization of the subject has perhaps been the most conspicuous thread running through economics since I first entered it. In the 1930s one could read the journals without much knowledge of mathematics, with the exception only of *Econometrica* and the *Review of Economic Studies*. Today one is regarded as unqualified without some knowledge of mathematics, and especially of its language. As economics deals very largely with functional relationships and dynamic processes, some understanding of mathematics is undoubtedly valuable in many contexts ranging from the proper understanding of the concept of elasticity to the appreciation of feedback effects. And it is often convenient to express in mathematical form, inferences and conclusions derived from reasoning and empirical evidence. The appropriate procedure is, however, to reason to mathematics, rather than from mathematics. But as highly qualified practitioners have argued, mathematical methods and formulations have run riot in economics without proper appreciation of their limitations. The major limitations have been pointed out by outstanding scholars with technical mathematical credentials, including Marshall, Pigou, Keynes, Leontief, Stigler, and their observations have often been pointed, specific, and pertinent. Those of Norbert Wiener, one of the great figures of modern mathematics, were particularly vigorous. In one of my books I have referred at some length to his *God and Golem, Inc.*, published posthumously in 1964.² Yet these critical observations have made little impact. Reading the journals one gets the impression that economics has become little more than a branch of applied mathematics and one that can be successfully pursued with little reference to real life phenomena.

Another conspicuous development in economics since I first studied the subject has been the use of econometric methods. Much

²See Bauer (1981, pp. 263–64), citing Wiener (1964).

useful work has been done with these methods. But far better qualified people than myself have demonstrated their frequent abuse, and the misapplication or misinterpretation of their results.

Here I want to draw attention only to some of the ways in which mathematical economics and the use of econometrics have contributed to the disregard or neglect of evident reality. Their use has led to unwarranted concentration in economics on variables tractable to formal analysis. As a corollary, it has led to the neglect of influences which, even when highly pertinent, are not amenable to such treatment. Similarly, it has encouraged confusion between the significant, on the one hand, and the quantifiable (often only spuriously quantifiable) on the other. It has contributed to the neglect of background conditions and historical processes where they are indispensable for understanding. For instance, differences in income and wealth, both domestic and international, cannot be considered helpfully without attention to their antecedents and background.

Belief in the well-nigh universal applicability of testing by econometric methods has led to inappropriate claims for these methods. It has also smothered other forms of reasoning and inference. What has become of the traditional method of direct observation, reflection, tracing of connections, reaching tentative conclusions and referring these back to observation and to established propositions of the discipline, or to findings of cognate disciplines? Such procedures are no less informative than quantitative analysis. For instance, with the traditional approaches the economist was much more likely to be aware of the gap between theoretical concepts and the available information.

The acceptance of quantitative methods as the most respectable procedure has permitted the burgeoning of incompetent or inappropriate econometric studies, including those based on seriously flawed data. Conversely, studies based on direct observation or detailed examination of slices of history are apt to be dismissed as anecdotal, unscholarly or unscientific, even if they are informative. All too often their findings are dismissed as no more than casual empiricism or expressions of opinion. Moreover, in what passes for high-level discourse, insistence on the obvious can be made to sound trivial and therefore not worth saying. In short, preoccupation with mathematical and quantitative methods has brought with it a regrettable atrophy of close observation and simple reflection.

I have just asked the rhetorical question of what has happened in economics to the traditional sequence of observation, reflection, inference, tentative conclusion and reference to established propositions, and to findings of other fields of study. Being rhetorical, the

question can be answered readily. This type of reasoning and its vocabulary have contracted greatly throughout the subject and have virtually disappeared in large parts of it. And the traditional method has retreated not because it has been proved less informative than the methods that have replaced it. It has retreated because it has been castigated as being less rigorous than its more modish successors, largely because it less resembles the procedures of the natural sciences, especially those of physics.

I think that in the course of this shift of approach pertinent differences between the study of nature, especially physics, and economics have not been sufficiently recognized. Some differences may be only of degree, others are sufficiently pronounced to be more nearly differences in kind.

Natural scientists seek to establish uniformities about phenomena and relationships which are substantially invariant. Some of the phenomena and relationships studied by economists are also largely invariant. Others are not so constant, or at any rate their constant components are embedded in so many others that it is often difficult to discern the presence and extent of uniformities. Again, concepts and distinctions widely used by economists—or even regarded as basic—are imprecise, arbitrary, and shifting, and their real life equivalents difficult to pin down: primary, secondary, and tertiary activity, or manufacturing and service activity; voluntary and involuntary unemployment; developed and underdeveloped countries; final and intermediate goods (a distinction that is critical for the definition of income); and many others. This extensive fuzziness of concepts and categories in economics limits informative use of mathematical methods: in mathematics the concepts and relationships, although completely abstract, are more precise and consistent.

For these various reasons, the methods for discerning uniformities, and their extent and limitations, differ considerably between the natural sciences, on the one hand—especially those like physics and chemistry that have been most successfully mathematicized—and social study, including economics on the other hand.³ Some parts of economics, most obviously development economics, deal with events and sequences the informative study of which needs to incorporate practices from historical scholarship, such as reliance on primary sources, close observation, sustained reflection, the tracing of connections, and others.

³There is a large literature on this controversial subject. Apart from Wiener's short essay already mentioned, I have found particularly helpful the observations of Sir Peter Medawar (Nobel laureate biologist) in *The Art of the Soluble* (1967).

These remarks on the differences between the study of nature and the study of society are not intended in the least to endorse the view that in economics, or social study generally, objective reasoning is impossible, which is another matter altogether. As I have written on this issue in a number of publications, I shall not develop it here and simply say that objective reasoning is quite as possible in economics as in the natural sciences.⁴

Mathematical methods often provide an effective facade or screen which covers or conceals empty formalism. They can camouflage disregard of basic propositions or simple evidence in models purporting to serve as basis for policy. Statistics, technical jargon, and sophisticated econometric techniques can also serve as a protective screen. But the use of mathematics is particularly effective because of the language barrier it provides. What we see is an inversion of the familiar Hans Andersen story of the Emperor's New Clothes. Here there *are* new clothes, and at times they are *haute couture*. But all too often there is no Emperor within.

The achievements of mathematical economics and of econometric techniques have been secured at a great price. This price is not reflected adequately in the direct resource costs. In the book to which I have referred, Wiener insisted that the adoption of mathematical formulation and econometric methods involves misconceived imitation of the natural sciences; and also that it has enabled economists to remove both themselves and their public from the perception of reality.

The Wider Scene

It is not surprising that indifference to reality is not confined to economics, but is extensive on the wider scene also. This divorce from reality is particularly baffling in view of well-nigh universal literacy in the West and the advances in the transmission of information. It is baffling also in view of the profound advances in science and technology. These latter subjects depend on reasoning which, although necessarily abstract, cannot fly in the face of reality.

Disregard of reality encompasses the refusal to accept the plain evidence of one's senses, neglect of simple connected reasoning, and the inability to recognize simple inconsistencies. What is behind all this?

Attempts to explain people's opinions always involve conjecture. Arguments can be assessed conclusively on the basis of logic or

⁴See, for example, Bauer (1972, ch. 15; 1984, ch. 9).

evidence. But why people accept or canvass them cannot be determined so confidently. In certain contexts some dominant influences are discernible. Many influences themselves represent a disregard of reality and also promote it; as in so many social situations, the process and the outcome are intertwined, even inseparable.

There are some who argue that there is nothing perplexing about conduct and opinions in evident conflict with reality, since they reflect no more than the promotion of self-interest. In this scheme of things apparently paradoxical and anomalous ideas and modes of conduct emerge from the operation of special interest groups or coalitions, including politicians, public servants, academics, and sections of the electorate. This factor can be significant.

Yet the operation of special interest groups cannot account for some conspicuous anomalies. Thus it can explain neither the hostility to the West in major international organizations nor the supine conduct of the West in them. Some of these organizations existed in embryonic form before World War II: the League of Nations in Geneva and the International Institute of Agriculture in Rome were precursors of today's UN and FAO. But their stances differed radically from what goes on there now. Moreover, the West supports lavishly and treats with deference African rulers who consistently vilify it. Such a stance by the West would have been unthinkable in the 1930s. These rulers have no votes in the West, nor do they advertise much in the media.

Amputation of the Time Perspective

Confusion between advancement of knowledge and promotion of policy undoubtedly contributes to indifference to reality. This influence is certainly important in economics. That this is so is suggested by the profusion of transgressions against reality in those parts of the subject close to policy, such as development economics, the economics of Soviet-type planning, labor economics, the economics of poverty, and the economics of market failure. Some practitioners acknowledge the pursuit of political objectives; they also urge that in any event in social study objective reasoning is impossible. I may mention an experience of mine. On several occasions when my lectures criticized the notion of the vicious circle of poverty, members of the audience said that, whatever the validity of my criticisms, the notion was invaluable in the advocacy of foreign aid.

Much contemporary discourse is also afflicted by ignorance of the past and neglect of the time dimension in cultural and social phenomena. Sir Ernst Gombrich has termed this phenomenon the ampu-

tation of the time dimension from our culture. It has vitiated discourse in much of contemporary economics including, for example, mainstream development economics and the discussion of domestic and international income differences. In these and other parts of economics we cannot understand the situation we observe unless we know how it has arisen. For instance, the low income compared with the West in many LDCs with substantial exports of cash crops has often been adduced to support the contention that external contacts and the production of cash crops are not effective for economic progress, or indeed inhibit it. In fact, many cash-crop exporting countries have progressed very rapidly over the last century or less. But how can we expect societies which in the late 19th century were still extremely backward, or even barbarous, to reach, within a few decades, the level of societies with many centuries, or even millennia, of economic development behind them? Another example is provided by changes in the distribution of income within a country. A higher degree of inequality may result say from a greater reduction in mortality among the poor (which would represent an improvement in their condition) or from the imposition of a regressive tax regime.

The factors behind the debilitating lack of the time perspective and neglect of evidently pertinent background include the speed of social and technical change and the multiplicity of messages reaching people, often about distant events. Very rapid and discontinuous social and technical change can unnerve and even unhinge people. There is only so much change that people can absorb as individuals, families, or societies. By disrupting sustained observation, these influences inhibit both connected thinking and the poise provided by background and time perspective.

Again, any inclination to equate the methods of natural science with those of the social sciences conduces to the downgrading or neglect of antecedents and processes. Whilst antecedents and processes are largely irrelevant in chemistry and physics, and wholly irrelevant in mathematics, they are critical for the understanding of social phenomena. The signal achievements of natural sciences and the pervasive results of their applications encourage habits of thought in social sciences based on misleading analogies between the two realms of study.

Whatever the factors behind them—and the list proposed here is both tentative and incomplete—lack of knowledge of the past and neglect of the time perspective are evident in much contemporary discourse. The resulting loss of collective memory has also opened the way for the manipulation and rewriting of history.

Collective Guilt

The widespread or at any rate widely articulated feeling of guilt in the West is a significant influence behind some of the novel and baffling manifestations of the contemporary disregard of reality or even its denial. It helps to explain such matters as the acceptance of unfounded notions about Western responsibility for Third World backwardness and of the allegedly damaging effects of commercial contacts between the West and LDCs; the spineless conduct of the West toward African despots with negligible external power and resources, and the readiness of the West to support them in spite of their hostility to the West and in the face sometimes of inhuman domestic policies; and also the readiness of the West to finance international organizations that serve as forums for the embarrassment and undermining of the West. The guilt feeling in the West is reflected, for example, in the hostility toward South Africa. Whatever one may think of the conduct of the rulers there, they certainly treat their subjects no more harshly than various black rulers. As is well known, many people from black Africa are anxious to migrate to South Africa. The rulers of South Africa are singled out for special obloquy because they are white. Were they any color other than white, their conduct would arouse little or no comment in the West.

Again, the readiness to give aid to Asian and African rulers without questioning their policies reflects the same influence. Guilt-ridden people hope to assuage their feelings simply by giving away money (especially taxpayers' money) without questioning the results: what matters is to give away money, not what results from this process.

Although some elements of guilt feeling are part of the Judaeo-Christian tradition, guilt today is novel. Materially, the West has never had it so good, nor ever felt so bad about it. One reason for this is probably the failure of material prosperity to bring about the contentment and happiness so widely expected from it. Guilt has contributed to the confusion between the merits of charity in helping the less fortunate and the notion that income differences as such are reprehensible results of oppression and exploitation. These differences are commonly referred to as inequalities or even as inequities. The confusion has been encouraged by an eagerness of churchmen to see themselves not as spiritual leaders but as social welfare workers or political activists.

Moreover, many influential opinion formers, including teachers, clerics, and people in the media, have come to dislike Western society, or even to hate it. They are apt both to harbor and to provoke feelings of guilt.

A major factor behind the emergence of contemporary collective guilt has been presumably the erosion of personal responsibility under the impact of social determinism. Participation in collective guilt has taken the place of individual responsibility. External forces are held responsible both for personal misconduct and personal misfortune. And if we are all guilty, then no individual is.

Guilt feeling in Western societies has promoted indifference to reality, a loss of poise and a loss of confidence. Loss of continuity and the amputation of the time perspective reinforce these effects of collective guilt. Kenneth Clark wrote that he was not sure what were all the necessary ingredients for civilization but he was sure that confidence and continuity were indispensable. Both have been seriously eroded in recent decades.

Misuse of Language

In recent decades many thoughtful people have commented on the misuse of language, both in public discourse and in education. Disregard of reality promotes erosion of language, which promotes further disregard of reality. Language is to a culture or a society what money is to an economy; their erosion leads to a disintegration. Misuse of language covers the shifting interpretation of concepts such as socialism, equality, growth, monopoly, and many others. At times misuse of language is even acknowledged. If a country is officially designated as democratic or as a people's republic, we know that it is one in which people have no say in the government. Another category of examples is the treatment of countries and other collectivities as if they were single decision-making entities, or entities within which all the people have identical interests, experiences, and conditions. The aggregation of two-thirds of mankind as the Third World is a conspicuous example.

The growth of specialization, including long periods of specialized training, inhibits the exercise of critical faculty outside a narrow range and engenders disregard of reality in much academic and public discourse. This disregard is also facilitated by an understandable and rational reluctance of people to exercise their critical faculties in matters which affect them but about which they feel they can do little or nothing.

The vast expansion of information in recent decades may have been critical in the widespread atrophy of reflection. People, including academics, are expected to absorb so much information and technique that all too often they have little time, inclination, and capacity

left for reflection and observation, even for simple assessment of the information reaching them.

The decline of traditional religious belief may also have conduced to a disregard of reality. This explanation could be appealing both to believers and to skeptics. Traditional religious belief provides a unified coherent world view, the erosion of which enfeebles connected thinking. Conversely, it can be argued that the decline of religious belief diffuses the credulity of mankind over wide and more diverse areas. The speed of the decline reinforces such effects.

In this section and its three predecessors I have suggested some of the forces and influences behind the contemporary disregard of reality. I must remind the reader, however, that such suggestions are necessarily somewhat speculative. This is especially true of reflections on the varied and complex forces behind the *Zeitgeist*.

Need to Restate the Obvious

What has happened to us in the West for us to be so ready to fly in the face of reality and to reject the evidence of our senses? What makes us lose our poise and self-respect? It is as if amidst unprecedented prosperity and scientific achievement, inexplicable malevolent forces had undermined our mental and moral faculties.

The extensive and baffling indifference to reality matters greatly. Among other results, it has undermined standards in parts of economics, in other social studies, and in wider areas of ostensibly serious discourse. It is reversion to barbarism. Ortega y Gasset wrote that the absence of standards is the essence of barbarism. It is because this condition prevails in parts of economics alongside its great achievements of recent decades that I am now so baffled by the present state of the subject.

The tendency to disregard simple realities has undermined the poise, self-assurance, and stance of the West in the international arena. It has also underpinned the uncritical acceptance of ideas and policies damaging to the West, and much more so to the peoples of the Third World. This is not surprising. Politics and societies bent on disregarding reality must be vulnerable to adversity, and also to threats from within and without.

Such concerns highlight the perceptiveness of two observations by authors widely separated in time and very different in general outlook. Their observations make a fitting conclusion to this essay. Pascal wrote in the 17th century: "Let us labour at trying to think clearly: herein lies the source of moral conduct." (*Travaillons donc à penser bien: voilà le principe de la morale.*) And in our own time

George Orwell wrote: "We have sunk to such a depth that the restatement of the obvious has become the first duty of intelligent men."

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