

*What modern economists get wrong*

# Specialization: The ‘Main Character’ on the Economic Stage

In *The Wealth of Nations* Adam Smith famously wondered at the great efficiency with which just 10 men, each performing only two or three different tasks on a few machines, could produce a dazzling number of pins—48,000 pins a day. “But if they had all wrought separately and independently,” he observed, “and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day.”

In the centuries since Smith, economists seem to have lost sight of their study’s roots in this crucial insight into the value of specialization. In a new Libertarianism.org ebook, *Specialization and Trade: A Reintroduction to Economics*, economist Arnold Kling argues that post-World War II economists have mistakenly placed the concepts of scarcity and choice at the center of economic thought. “In my view,” writes Kling, “specialization is the most essential fact in economics. Each of us performs only a narrow range of tasks, often producing nothing that is directly consumable at all, and yet we enjoy goods and services that require hundreds of millions of tasks performed by millions of workers all over the world.”

Kling therefore offers a brief “re-introduction” to economics, in order to “make specialization the main character in the story.” He critiques modern economists who portray the economy as “a machine governed by equations.” They offer this clumsy interpretation so that they might, in turn,

devise a “repair manual, with policy tools to fix the economic machine when something goes wrong.” Instead, Kling proposes, the economy is a much more elegant and complex creature—better resembling the evolving system of a rainforest. “The mechanistic metaphor is inappropriate and even dangerous,” he warns.

Kling’s *Reintroduction* delves into the core matters of economic thought, beginning with the difficulty of treating economics as a “science”—can economists verify their interpretive frameworks in the same way scientists verify their hypotheses?—and proceeding to analyses of how an economy actually works. He explains why a decentralized price system provides the best information and guides the economy toward sustainable use of resources; how cultural norms and civic and government institutions set up rules to facilitate specialization and trade; and the special role the financial sector plays in enabling specialization. He examines how some of these ideas play out in the real world, by studying housing finance policy during the run-up to the financial crisis of 2008.

In his introduction, Kling writes that modern economists have lost the art of critical thinking—the habit of always asking “How do you know that?” Instead, they have adopted what he calls “the MIT approach”: one that “presumes that economic

researchers and policymakers are capable of obtaining knowledge that in reality is beyond their grasp.” Kling’s book warns of the dangers of these simplistic assumptions about economics, and instead presents economics as he believes it should be taught. And while Kling’s primary audience is other scholars of economics, his writing also provides a first-rate introduction to economic ideas that are easily accessible by students with little or no previous training in economics. ■

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