

Machoeconomics

Steven E. Landsburg, *The Armchair Economist: Economics and Everyday Life*,
The Free Press, New York, 1993

Reviewed by *Ross Parish*

As its sub-title suggests, this book seeks to expound economic principles by using them to solve, or clarify, puzzles and problems of everyday life and popular discourse. It is well-written in a lively style and is generally successful in exemplifying the economic way of thinking.

The person best known for employing economic concepts to illuminate all aspects of human behaviour, Gary Becker, has expressed his methodological credo as follows: 'The combined assumptions of maximising behaviour, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach as I see it' (*The Economic Approach to Human Behavior*, Chicago, 1976, p.5). Landsburg's credo is the same. He rejects non-economic explanations for any aspects of human behaviour: 'Our working assumption is that whatever people do, they have excellent reasons for doing. If we as economists can't see their reasons, then it is we who have a new riddle to solve' (p.19).

As a research strategy for economists, Becker's methodology has a lot going for it: after all, he was awarded a Nobel Prize. It induces one to take economics seriously, and is a useful prophylactic against cop-out 'explanations' involving tradition, habit, or irrationality. And it is true that many aspects of human behaviour, not normally considered to be economic, have been illuminated by the use of economic theory.

However, a research strategy for doing economics is not always the most appropriate way of discovering the truth. To believe that it is, is to assume that other disciplines or modes of inquiry have no explanatory value. Now while one may be sceptical about the claims of, say, sociology or psychology, one would have to be a macho economist indeed to dismiss those disciplines as having no explanatory power at all. Nevertheless, Landsburg gives the impression that he does just this: 'Do not imagine that I am an outwardly crusty but inwardly mellow economist acknowledging that there is more to life than economic models admit. On the contrary . . .' (p.44).

Landsburg concedes that the assumption of rationality 'is not always literally true', but he is unwilling to admit that rationally inexplicable behaviour is irrational. He puts forward a weak rationalisation of 99 cent pricing, but does admit that those economists who attribute this pricing policy to 'a mild form of irrationality in which consumers notice only the first digit of the price' may be right (p.15).

Landsburg insists on the moral neutrality of economics. He believes cost-benefit analysis should treat the gains and losses of criminals on a par with the gains and losses of law-abiding persons. This approach is arguable, but most policy-makers — including, I would suggest, most economists — would in practice discount the gains and losses of criminals. Landsburg draws attention to the silence of the American Civil

Liberties Union on a bill regulating the type of showerhead consumers were permitted to buy, and speculates that the ACLU would not have been silent 'if the bill had specified allowable prayerbooks instead of allowable showerheads'. To make the point that consumer protection or environmental protection is a form of censorship, and subject to much the same sort of criticisms as literary and artistic censorship, is valid enough; indeed I have made the point myself (in 'Industrial Censorship', *Quadrant*, July 1978). Landsburg goes on to say: 'But nothing in the science of economics suggests any fundamental difference between a preference for the Book of Common Prayer and a preference for a powerful shower spray. Quite the contrary; the economic way of thinking forces us to recognise that there *is* no fundamental difference' (p.228). From the economic point of view, true enough: but not necessarily from other points of view, such as the moral or the aesthetic. The moral neutrality of the economic way of thinking does not require economists to be morally neutral, to draw no distinction between economics and morals.

A pedagogic technique used by Landsburg is to produce a startling or counter-intuitive result on the basis of a highly abstract model, and then modify it by introducing more realistic assumptions (sometimes only in footnotes). Thus, he invokes what he calls the Indifference Principle: 'Except when people have unusual tastes or unusual talents, all activities must be equally desirable' (p.32). Knowledge of this principle saves one from worrying about where to live, since 'when all factors are accounted for, all inhabited cities must be equally attractive. If they weren't, nobody would live in any but the best' (p.31). He also argues that the addition of a 'free' amenity to a town will bring no net benefit to the citizens, since the benefit will be entirely dissipated by the activity of queuing for admission.

The principle that the market will adjust prices so as to bring about a net equalisation of the relative advantages of different activities is well established, going back to Adam Smith. But as important as the equalisation of advantages is the notion that this occurs only *on the margin*. For equalisation to occur for all participants, supply and demand curves (depending on the example) must be perfectly elastic. Thus, Landsburg's conclusion in the queuing case requires that all consumers are willing to pay exactly the same (time or money) price for the use of the amenity. Now he recognises this to the extent of saying that everyone in the town 'has pretty much the same preferences and the same opportunities in life' but does not stress how crucial this assumption is for his conclusion. (Landsburg's reference to unusual tastes suggests that he believes that most people do have similar preferences.) Readers would have gained greater economic insight had they been told of equalisation at the margin and the concomitant existence of surpluses for the intramarginal participants. (Elsewhere in the book he does not shy away from the concept of consumer surplus.)

I am sympathetic to the aims of Landsburg's book; and in many respects it is successful. However, readers may be put off by the exaggeration and the intransigent, macho style. But then again, some readers — younger, or less mellow, ones perhaps — may well be attracted by the very features that I find objectionable.

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