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REVIEW ESSAY

"IN ECONOMICS, IT TAKES A THEORY TO KILL A THEORY"[1]

A REVIEW ARTICLE ON BRUCE ANDERSON AND PHILIP MCSHANE, *BEYOND ESTABLISHMENT ECONOMICS: NO THANK-YOU MANKIW* (NOVA SCOTIA: AXIAL PRESS, 2002).

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Bruce Anderson and Philip McShane attempt to promote in economics what McShane calls in his editor's introduction a "short term revolutionary change," the long-term one pivoting around the integration of Bernard Lonergan's functional specialties in economics and every other discipline. Following up on the authors' previous work on Lonergan's economics (i.e., McShane's *Economics for Everyone: Das Jus Kapital* (1999) and *Pastkeynes Past-modern Economics: A Fresh Pragmatism* (2001)), they employ Lonergan's macroeconomic dynamics to debunk and provide an alternative to "establishment economics." They choose specifically Gregory Mankiw's *Principles of Macroeconomics* (1998), a popular mainstream introduction to economics textbook.

Anderson does the exposition and comparison/contrast of Lonergan's and mainstream or "establishment" macro-economics. McShane provides an intermediate chapter on "Thinking Like an Economist," as well as the "bookends,"

[1] Paul Samuelson, quoted in David Card and Alan B. Krueger (contributor), *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton: Princeton UP, 1995), 155.

introductory and concluding chapters on the importance and implications of the two approaches to economic understanding. *Beyond Establishment Economics* as a whole uses Lonergan's *For a New Political Economy* (1998) and particularly *Macroeconomic Dynamics: An Essay in Circulation Analysis* (1999)[2] to address and overcome flaws in the economic reasoning of Mankiw and by extension mainstream economics. McShane, following Joseph Schumpeter, identifies the main problem of Mankiw's and the general approach of establishment economics: offering in the name of science seemingly practical advice, but which only relates to the present political exigency. This ends up in substituting politically biased commonsense understanding for scientific explanation. The "practical" upshot of this "unenlightening and abusive" endeavor is in McShane's apt mix of metaphors, "economists in a dark room trying to screw in a light bulb, successfully screwing the poor."[3]

Despite the "Shocking Candor of Economics Professors" on the failures of economics as a science, rendered well by Anderson, a successful alternative in the direction and on the scale of Lonergan's achievement has not been sought. What is therefore needed is a "massive shift of theory, of education, of stance in investigation and statistical analysis, of general attitude." By developing (in order) Lonergan's "key diagram," Mankiw's approach, and then Lonergan's views dialectically alongside Mankiw's viewpoints on method, views on credit, saving and interest rates, centralist controls, free trade, and monetary, fiscal and other government policies, the authors effectively lay out a scheme for others to appropriate Lonergan's view.

For those not familiar with Lonergan's breakthrough analysis of the set of relationships and exchanges among the basic and surplus circuits, Anderson's introductory chapter on Lonergan's "key diagram" will be the highlight of the book.

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[2] *CWL 21* and *CWL 15*, respectively.

[3] While establishment economists have made some refinements to the basic neo-Keynesian/neo-classical model, this has done no more than "obscure the basic muddles under a sophistication of mathematics and models."

Even for those who have already labored to understand what Lonergan is getting at, Anderson's patient and clear exposition of nature of, and the differences and reciprocal relationships between, the basic and surplus circuits of the economy (plus the redistributive function) is very helpful. Beginning with the basic circuit ("consumer goods" as goods that are sold into the standard of living), he adds the successive layers of the surplus circuit (including goods used to produce consumer goods), the crossovers, and the redistributive function, using concrete examples throughout (along with dollar amounts so we can see how it all adds up).

On the other hand, the chapter on Mankiw's textbook is the low point. Not that it is not a clear and balanced presentation – the problem is having to go through the almost inherently impossible task of trying to understand Mankiw's familiar but flawed tenets of methodology and economics. (In my case, reading through this brought back painful memories of 5 years of undergraduate and graduate economics). Anderson's rhetorical technique of constantly saying "we are told [by Mankiw] …" underlines the specious nature of Mankiw's positions.

Once these five introductory chapters are out of the way, Anderson addresses in four successive chapters the major categories of economic analysis covered by Mankiw and Lonergan. In some cases, especially in the issue of the gains of free-trade, Anderson not only critically compares the two, but also extends Lonergan's unfinished analysis. Most of the insights in these chapters are rooted in the main difference between Lonergan and establishment economics – that Lonergan takes into account the existence and exigencies of two distinct circuits of goods and money, while Mankiw does not.

The fruits of these chapters are too extensive to do sufficient justice to them here, but to at least point to the exceptional value of this book, I will list for each category/chapter one crucial difference between Mankiw and Anderson/McShane/Lonergan:

> Using "vague aspirations, common sense generalities, speculations, or ideas that have not been verified,"

establishment economics is concerned with simplifying economic analysis in providing a "snap-shot" view of how the "law of supply and demand" end up achieving equilibrium prices, interest and unemployment rates. Lonergan on the other hand is trying to identify the significant variables in a dynamic understanding of economic process.

Inflation for establishment economics is purely a monetary phenomenon, not related to the production process, or indeed any understanding of it. For Lonergan, it is caused by the increased need for money during the surplus expansion. The difference affects the way money should go to investors: Mankiw favors increasing the interest rate to encourage saving and thus funds for investors to borrow; Lonergan favors long term loans because raising the interest rate will discourage lending by firms in the surplus expansion and thus help to derail it.

Both Lonergan and Mankiw admit that some central control of the economy is necessary, though not in the same ways. But since Mankiw has a flawed understanding of economic process, any control of the economy based on it will also be flawed. On the other hand, Anderson shows how, in contrast to current U.S. economic policy, both fiscal (investment tax credits) and monetary policy (shifting interest rates) can be harmful to the economy.

Contrary to the mainstream economic doctrine of "comparative advantage," neither the "developed" countries nor the "underdeveloped" countries benefit from free trade. Indeed, Anderson compelling shows how the doctrine of comparative advantage is at the root of the international debt crisis. Among "equal" trading partners, it can only be advantageous if done in such a way that does not drain the basic (surplus) circuit in favor of the surplus (basic).

Overall, the authors provide an excellent presentation and discussion of Lonergan's economics and its advantages over establishment economics. The book will also provide clarity to those who are already familiar with Lonergan's economics. It pulls together in a comprehensive way Lonergan's treatment of the various aspects of macroeconomics (the authors also add appendices on "Transitional Payments" and "Trade Turnover and the Quantity Theory of Money"). While no work should be said to be a good substitute for reading *Macroeconomic Dynamics* and *For a New Political Economy, Beyond Establishment Economics* not only helps to make Lonergan's economics more intelligible, but also more urgent when set in relief against Mankiw's text. Both McShane's and Anderson's sections are clearer than McShane's earlier primer on Lonergan's economics, *Economics for Everyone*, without losing McShane's overall vision and rhetorical flair, long familiar to Lonerganians. As usual, he is also concerned with locating Lonergan's method and economics not only among established economists but also in the more "axial" undertaking of reforming human learning and practice. For example, before I even got to the chapters on Lonergan's economics, McShane's criticism of the conceptualist "understanding" of mainstream economics made me reflect more deeply on how I teach.

For those who approach Lonergan's economics from the perspective of moral theology, the author's highlighting of the necessity of proper economic understanding instead of traditional categories of economic ethics, such as social and distributive justice, living wage, option for the poor, etc., may be disappointing. But the authors correctly follow Lonergan's assessment that "a moral economics is a good economics." However, I do believe a "selling point" of Lonergan's economics to social ethicists and humanistic economists, is the superior "economic anthropology" that underlies much of Lonergan's economics, a point that could have been emphasized more in the book. For a long time, *homo economicus* has been a just target of criticism of mainstream economics. It is understating the point to say that Lonergan's *homo* "observant, intelligent, judging, and responsible" is a

decisive improvement. For example, getting those in economics to read Lonergan *instead* of Mankiw, a long-term goal of the book, is going to begin with people on the "fringes" of mainstream economics. Social economists, institutionalists, post-Keynesians, "critical realist" economists in Great Britain, those economists engaged with Catholic social teaching and Christian ethics in general, and even neo-Marxists share some affinity with Lonergan's implicit economic anthropology, however much their respective macroeconomic understandings pale against Lonergan's. Despite being marginalized from establishment economics, most still belong to and participate in the American Economics Association, and teach undergraduate economics courses that Mankiw's text is written for.

Apart from this one minor criticism, I wholly recommend this book to anyone interested in or responsible for understanding economic process, including social ethicists. It could (should!) be profitably used in undergraduate and graduate economics classes, and in upper level and graduate social ethics courses.

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