

## **The Soulful Science: What Economists Really Do and Why It Matters. By Diane Coyle**

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Diane Coyle wishes to convince the intelligent general public that contemporary neoclassical economics is not only virile, rather than sterile, but is of crucial importance for public policy. Her book seeks to change the noneconomist professional's belief that (p. 2) "[E]conomics is too narrow in its focus, caring only about money; too dry and robotic in its view of human nature; too reductionist in its methodology." Her means consists of a review of developments in mainstream quantitative economic research over the past two decades—research that she characterizes as "applying the scientific method to the study of human behavior." Not surprisingly, she views the nominalist philosopher David Hume, to whom cause and effect relations were mere mental associations stimulated by repeated observations, as "the most important founding father of economics."

Despite my impression that the author received her education in the history of economic thought from Little Golden Books, her summary of more recent research in quantitative economics seems adequately representative. Chapter 6 on "Information and Markets" is an especially welcome departure from the usual paean to the superiority of centralized decision-making by government policy makers.

The book is divided into three parts. Assuming that economic growth is the main focus of economics, the first chapter of the first part summarizes the historical evidence of world economic growth, particularly emphasizing the work of Angus Maddison that shows a growth surge in the West in the late eighteenth (in Britain) and early nineteenth (in other western countries) centuries. Coyle concludes (p. 29) that productivity gains in some sectors of Western economies provided comparative advantages that stimulated trade and restructured those economies into growth. She opines: "Politics, society, and culture matter for growth because they affect the extent to which a particular economy uses its technological and trading opportunities. But they don't 'explain' growth." Well, certainly not from a nominalist viewpoint of the meaning of "causality." Intrinsic cause and effect relations are not

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part of that epistemology. “Explanation” means “description” to nominalists. Politics, society, and culture would have to be quantifiable to be part of such an “explanation.” If they are not, they cannot be included. This is why nominalist “explanations” change as quantitative research tools change, and why they never satisfy those of us who regard “explanations” of social phenomena as inherently genetic causal.<sup>1</sup>

The second chapter of the first part examines the question of why economies grow. Her answer is that provided by “endogenous growth theory.” Before providing the details of that “theory,” Coyle forages into the thickets of intellectual history to explain why nobody got it right until the last two decades. This is the most disappointing part of the book, as are most of Coyle’s references to any research done more than a couple of decades ago. Contemporary economic researchers may need reminding of the (modified) aphorism: “Those who are ignorant of [intellectual] history are condemned to repeat it.” In any event, after a brief reference to French Physiocracy’s belief that the agricultural sector is the source of growth, and an assertion that the population theory of Robert Thomas [sic.] Malthus led to Thomas Carlyle christening economics “the dismal science,”<sup>2</sup> Coyle makes the astonishingly ignorant statements that Adam Smith disparaged innovators, argued that growth was the result of division of labor and exchange, and ignored the role of technological innovation in increasing production. Even my introductory economics students know better, and they only read the introduction and first four chapters of book 1 and the first three of book 2 of Smith’s *Wealth of Nations* (1976).

Like a rock skipping across a pond, Coyle touches briefly on J.S. Mill, Karl Marx, and Joseph Schumpeter before briefly coming to rest in the 1950s, where she summarizes the economic growth model of Robert W. Solow. To give the devil her due, she recognizes the simple-mindedness and almost zero explanatory (in any sense of the word) value of Solow’s “black box” view of growth as more inputs leading to more outputs. Skipping ahead to the 1970s, Coyle segues into the “post-neoclassical endogenous growth” models of Robert Lucas and Paul Romer—the former emphasizing the introduction of human capital into the production function, the latter doing the same for technological innovation.

The models are “endogenous” because the element emphasized has “spillovers” within the model that increase the growth rate by introducing economies of scale. Lucas’s educated workers interact more productively than uneducated ones for reasons that Coyle doesn’t explain, although she recognizes (p. 51) that this is no explanation for the productive results of the efforts of the poorly educated workers of the Industrial Revolution. Romer’s mysterious “stock of knowledge” has increasing returns if plugged into the production function. Both approaches illustrate the aforementioned “rediscovery of the wheel” to me, as well as its mechanical application without an understanding of how it works. In 1776, Smith included human capital in his description of fixed capital and explicitly identified “the skill, dexterity, and judgment with which its labour is generally applied” as the main source of “the necessities and conveniences of life” (GDP) produced in every

<sup>1</sup> See Cowan (1994) for a brief explanation of the genetic causal method.

<sup>2</sup> See Levy (2001) for the correct explanation for the source of that term as rooted in Carlyle’s racist views and opposition to the antislavery views of Classical School free trade and free labor theorists.

nation. In 1871, Carl Menger argued (1976, p. 74) that the most important factor in the growth of human economies is “the extent of human knowledge of the causal connections among things and by the extent of human control over these things.” Of course, Smith and Menger were presenting cause-and-effect explanatory theories rather than plugging posited variables into econometric models to cover quantitative differences between quantitatively measured inputs and quantitatively measured outputs. They were interested in the “why” of economic growth as a key to the “how” of getting it. How *passé!*

According to Coyle, “endogenous growth theory” implies the importance of three factors for economic growth: population size, geography, and history. More people means more growth (ignoring the decades of historical stagnation in China and India despite populations in excess of one billion in each country); people moving from low average human capital areas to higher average human capital areas mean more growth (ignoring the population movement of the mass of low educated people from more densely populated Europe to less densely populated colonial America and the resultant burst of economic growth in the new versus the old world); once an economy is growing, inertia takes over and growth feeds growth (ignoring the fact that pre-Soviet growth rates of the economy of Imperial Russia were not equaled until after World War II in the Soviet Union).

In fairness to Coyle, it must be mentioned that she briefly notes the importance of institutions to economic growth, as shown in the work of Douglass North and Mancur Olson. However, she quickly moves to the conclusion (p. 62) that mathematically rigorous endogenous growth models that include “the grittiest details of particular economies” are the ticket to deriving particular policy suggestions for improving their growth rates.

This takes her to the third chapter, which addresses the question of how to make poverty go away. Her solution is economic growth, to be achieved somehow. To her credit, she rejects central planning and any continuation of the failed international aid policies of the past 50 years. On the other hand, she presents little of any use to address the question of how to best secure economic growth beyond a general suggestion that an educated population is more capable of growth, given the resources with which to grow. She throws “good governance,” low rates of inflation, and small budget deficits into the mixture, but her conclusion is that “all developing countries have different problems” that require “policy experimentation.” Well, what can one expect when “explanation” consists of quantitative description and the difference between history and theory goes unacknowledged, if even grasped.<sup>3</sup>

Part 2 of the book summarizes some recent research on individual behavior with the hope of tying it to the larger question of why some economies prosper and others don't. For starters, what is meant by “growth” anyway? What is it that grows? This means trying to measure an economy and to relate what is being measured to the people in it and their “wellbeing” in some sense. Here, Coyle summarizes many of the problems of trying to measure GDP and various attempts to substitute other indices for it. A further question is “so what?” Is any of what is measured actually

<sup>3</sup> Of course, Mises (1957) provides the classic treatment of this difference.

related to individual “happiness”—whatever that might be? “Happiness” research is now a burgeoning field in economics, we are informed.

The second chapter of this part summarizes research into the question of the possible nexus between economics and psychology in consumer choice theory. Do individuals choose “rationally” (experimental economics)? How are their brains functioning when they make choices (neuroeconomics)? Are they self-interested? Are their judgments biased? Are their utility functions stable (behavioral economics)? Austrian School economists will find all of this methodologically irrelevant; however, it leads to proposals that policy makers change the legal contexts of consumer choice because research suggests that doing so will provide incentives for “better” choices—meaning choices that policy wonks and politicians prefer over those that consumers and producers would make “unaided.”

The last chapter in the second part of the book concerns the economics of information and how the fact that economic actors make decisions in the absence of perfect information leads to information markets. The now familiar topics of adverse selection, moral hazard, signaling, screening, and bundling are covered, as well as other results of information asymmetries and imperfections. This leads to the suggestion that creating markets that aggregate information can improve decision making on environmental questions, political election predictions, and in other areas where central or group decision making has proven less capable of gathering the needed information. Refreshingly, Coyle concludes “[M]arkets still look like a more efficient vehicle than any other for distributing information [and] should be extended into areas which have traditionally been reserved for social or governmental action” (p. 172).

The last part of the book attempts to bring together the first two parts by presenting alternatives to the standard neoclassical general equilibrium approach to the economic modeling of man in the growing socio-economy. Chapter 7 begins with a brief acknowledgement that the Austrian School, and Hayek in particular, were an early fringe group of economists interested in the dynamics of social order. Moving through a quick summary of sociobiology, Coyle then discusses the mathematical evolutionary growth models developed in biology and adapted by economic model builders. That this “objectivist” approach to an understanding of the evolution and growth of spontaneous social orders cannot produce a true causal understanding of social processes is inevitable, given the epistemological foundations of its methodology. Thus, the irony of her conclusion to chapter 7 (p. 201) that “outside the formalities of game theory, there is no clear understanding of how the multitude of economic and political interests, professional expertise, legal practice, social norms, cultural habits, and so on coevolve to create the set of market institutions which form the competitive environment.” Even inside the formalities of *game theory*, one might add.

Chapter 8 begins with a summary of the origin and development of public choice theory, moves on to the New Institutional Economics, and concludes with a review of recent expeditions by economists into sociology in their never-ending quest for objective crowbars with which to raise GDP. Chapter 9 ends the book with a defense of modern economics as a science that uses econometrics to build economic models (p. 253) that will provide “an understanding of society as the aggregation of millions of individual decisions, in specific contexts shaped by history and geography, and by

our own evolutionary history.” Economics as history, without self-consciously formative theory, is economics without a soul—despite the title of Coyle’s book.

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