THE CHICAGO SCHOOL OF ECONOMIC THOUGHT
by BLAINE WINSHIP

As in my last blog, this one's about economics and politics. And as before, this isn't the dry, dull stuff you got in college. This is stuff you really need to know, because it's deeply affecting your life.

To recap, there are two major groups in America that stand in the way of our economic freedom and prosperity: the liberal Democrats, who favor Big Government, and the moderate Republicans, who favor Big Business. Each has a corresponding school of economic thought that gives it a false sense of intellectual legitimacy. For the liberals, it's the Keynesian school. For the moderates, it's the Chicago school.

As I explained, the Keynesian school champions Big Government spending, bureaucracy, and entitlements. But it cannot deliver prosperity, because it hogs our wealth, destroys incentives and rewards for making our best better, and instead rewards the unproductive segments of society as a means to buy their votes with other people's money—meaning the taxpayers' money.

The Chicago school, so named because of its close early association with the University of Chicago, initially grew out of the views of Friedrich Hayek and Milton Friedman, great economists who did much to show how economic freedom leads to growth and prosperity, and how the heavy hand of government does the opposite.

But while the Chicago school has done much good in bringing more intellectual rigor to economics, it has largely lost its way. Where Hayek and Friedman's focus had been on the economic *freedom* of buyers and sellers, other Chicago school professors came to place far heavier emphasis on economic *efficiencies* in the production and distribution of goods and services.

This shift away from personal freedom and toward quantifiably measurable efficiencies was critically misguided.

As I explain in far greater detail my book, the biggest problem with quantitative analysis, standing alone, is that it ignores important aspects of us as thinking, feeling human beings. Our huge, dual-hemispheric brains enable us to think logically, creatively, and emotionally. As infinitely complex human beings, our minds combine analytical, creative, and emotional functions in making our decisions, including our economic decisions, and we do this all the time. Any view of us that considers only one aspect of us without the others sells us short.

Quantitative analysis sells us short. Our creative capacities enable us to innovate and to adapt; but those capacities cannot be quantified and measured, so quantitative analysis ignores them. And our emotional capacities power our decisions of what we want and care about, and what we do *not* want or care about; but those capacities also cannot be quantified and measured, so quantitative analysis ignores them, too. Yet quantitative analysis has come to pervade not only our universities, but also our government, leading to terribly distorted policy choices being inflicted upon us, especially in our commerce.

Here's something you already know about commerce that's worth keeping in mind: sellers can and do please us better in any number of ways. They can offer better quality, or faster service, or greater variety, or lower prices. Who decides which of these factors really matters the most? *We* do, each time we shop around and decide for ourselves how to spend our own money. But only one of these factors truly lends itself to quantitative measurement, and that is prices.

When it comes to getting lower prices from sellers, efficiencies can play a vital role. As sellers become more efficient, they lower the *costs* they incur to produce what we want, which allows them to lower the *prices* they charge us. This is generally a good thing. If we can get what we want at lower prices, we benefit from having money left over to spend on other things, or to invest for the future, as we see fit.

An efficient seller, by lowering the prices he charges us, also puts pressure on his competitors to find ways to be more efficient so that they can lower *their* prices, too. This is all part of the give-and-take of economic freedom, powered by our freedom as buyers to reward those sellers who find ways to please us better, and by our freedom to say "no" to those who don't.

What does this really mean? Sellers are driven to achieve efficiencies to lower their costs *because* they want to please more buyers, and to please them better than their competitors are pleasing them. This leads to a tremendously important point for us all to know and remember: *efficiencies are by-products of economic freedom—but efficiencies are not substitutes for economic freedom*.

That's because, as I noted earlier, lower prices are not all that we want. Other factors besides price—including quality, service, and innovation—also matter to us as buyers. Of these factors, probably innovation is the most important, because innovations make the most difference in raising our living standards. We saw this, for instance, over a hundred years ago, when we began to choose cars over horses—even though we ended up paying *more* to get cars. As the automotive industry innovated and evolved, our different wants as buyers led car makers to emphasize different factors in trying to please us better. Some focused their productive efforts on better performing cars, some on more luxurious cars, some on prettier cars, and some on faster cars—and we were willing to pay more to get those cars. Other car makers instead focused on producing lower-priced cars with reduced fuel consumption, to please those of us who were more price-conscious. Regardless, our economic freedom as buyers allowed us as to choose what we wanted, and car sellers' economic freedom allowed them to decide which factors to emphasize in seeking to please us better.

It follows that, to have the benefits of economic freedom, we need to keep all markets—not just car markets—free and open for sellers and buyers alike.

The Chicago school, in shifting away from economic freedom and toward economic efficiencies, has devolved into being the champion of Big Businesses and high market concentrations in industry after industry. This mind-set has favored the flurry of mergers and acquisitions that we saw back in the Eighties and Nineties and are seeing again today, as large companies merge with other large companies, and as brands that historically competed against one another are brought together under joint ownership.

The typical argument advanced in favor of these mergers is that the newly-merged entity will be more efficient than the merging competitors would be without the merger.

Of course, it's true that merging would allow them to fire redundant workers—who needs two buying departments, two accounting departments, and so on. But note that this very same argument could be made for allowing eight big companies to merge into four, and then the four into two, and then the two into one. At each stage, similar "efficiencies" can be realized.

Chicago school theory holds that it's good for businesses to be more efficient, because it enables them to be more competitive. This is true, up to a point. As companies grow, they can achieve economies of scale, for instance by purchasing in greater bulk. But that doesn't mean that they have to merge, and cease competing with each other, to get those same economies of scale. Smaller firms can pool their purchases, through buying cooperatives, and still remain independent competitors.

But the 800- and 600-pound gorillas dominating their markets generally have already reached the point at which they've maximized their economies of scale. They use the efficiency argument as a pretext for gobbling up their competitors, so they don't have to compete with them *at all*.

This may be great for the gorillas, but not so great for buyers, whose choices have dwindled to almost nothing; and not so great for innovative smaller companies that are intimidated from competing against the gorillas.

This problem is greatly intensified by the unholy marriage of Big Business and Big Government. The crush of government regulations—often written by Big Businesses' trade associations for the bureaucrats to administer—creates barriers to entry into the marketplace that keep small businesses out, not only because of the heavy cost of complying with the regulations, but also because of the heavy cost of *failing* to comply, which can lead to catastrophic sanctions imposed by the government. In the meantime, the big get bigger—and richer.

When we rely on efficiency arguments to allow our various industries to become highly concentrated with just a few Big Businesses, and then cement this result into place through reams of costly regulations that favor those Big Businesses but at the cost of increased government control, the liberal Democrats and the moderate Republicans may be pleased. The stock market may even shoot up, for a while at least. But this is not the ticket to sustained economic growth and middle-class prosperity, because it's an assault on our economic freedom.

If there's to be a showdown between economic freedom and economic efficiency, freedom must triumph.

The exaltation of efficiency over freedom can lead to the loss of freedom. To appreciate this, come with me back to the 1930s, when fascism was spreading in Europe. Fascism, we all should know, is a top-down totalitarian system that, much like communism and classic socialism, grew out of the teachings of Karl Marx. The fascists included Hitler's Nazi Party, its name being an acronym for National Socialism. Here in America, we were mired in the Great Depression, a disaster caused by the progressive policies adopted by moderate Republican Herbert Hoover and liberal Democrat Franklin Roosevelt during their presidencies, as I chronicle in my book. Because those policies weren't working, many Americans wanted to go yet further in the top-down direction, and they became enthusiastic supporters of fascism. *Time* magazine even went so far as to name as its man of the year Benito Mussolini, Italy's fascist dictator. Think about that! The fascists' preoccupation with efficiencies was welcomed as a good thing by the liberals here in America. Never mind that it meant the destruction of individual liberty. *Better that the trains run on time than that people be fre*e.

So, here's a disturbing implication for you to ponder. If a top-down totalitarian system that treats the people like cogs in a machine, or as slaves to the State, could be shown to be the most efficient economic system, with the lowest cost and the least waste, then the efficiency-driven Chicago-schoolers would be *helpless* to reject that system, despite the loss of personal freedom that it brings. It wouldn't even matter to the Chicago-schoolers which "ism" it was—fascism, socialism, or communism—so long as it was the most efficient. This is what happens when so-called intellectuals make themselves slaves to ideas that run contrary to freedom—as we're seeing now in Europe, where the liberals' slavish acceptance of political correctness and moral relativism has led them to allow chaotic immigration by people who want to blow them up, cut off their heads, and rape their women.

We might be more efficient living as ants under the tight-fisted control of a powerful central government dictating our choices to us. But we would not be happier. Nor could we hope to generate significant economic growth and higher living standards. That's because the focus on efficiencies would shift us toward supplying ever more cheaply-made goods and services, and away from greater innovation and higher quality and variety as means by which we please one another better and grow our economy.

Yet more importantly, with a top-down government running the economy, we would no longer even *have* to be concerned with pleasing one another. That sort of thing would be left for Big Government to decide.

There is much wisdom in understanding the dangers to a society when its focus is shifted away from universal moral principles, which lead us to grow our varied individual capacities so that we can be of greater value to others, and away from economic freedom, which allows us to give greater rewards to those who please us better.

The liberal Democrats and their Keynesian supporters, and the moderate Republicans and their Chicago-school supporters, reject this wisdom. The time has come for us to reject their positions. What's at stake? Only everything that truly matters.

In my next blog, I'll discuss a third school of economic thought—one I think you'll really like. Please join me for it.