

What Happens Next – Sunday February 7, 2021

Artificial Intelligence, Caregiving, the Penitentiary, Religion and Capitalism

Benjamin Friedman QA

Larry Bernstein:

Thanks, Ben. I guess I'm going to start out with your last point. In your book, you reference Billy Graham and the book *What's Wrong with People from Kansas*, whose citizens support an end to death taxes, low marginal tax rates, whether it really doesn't affect them. How do you explain the correlation of religiosity and conservative economic views? Why do they go hand in hand?

Benjamin Friedman:

First place, let me be clear, it isn't religiosity so much as which particular stripe of religion people adhere to, and the standout in the data that I review in the latter part of my book is the Evangelical community. You mentioned things like opposition to estate taxation, that's an absolutely fascinating one. It's not surprising that groups with higher incomes are more opposed to estate taxation than groups with lower incomes. To me, that makes perfect sense. If you look at various groups across the American society, that's by and large true. The one group for whom it isn't true is the Evangelical Protestants. Evangelical Protestants have quite low incomes compared to the American population as a whole. Lower incomes even than Democrats, on average. But the opposition to estate taxation among American Protestant Evangelicals is very strong, stronger even than the national average. I think it's clear that what matters is what particular theological beliefs one subscribes to.

Now, if I should just say something about Billy Graham, because you asked about him, I found that a very interesting part of the story, because Billy Graham was one of the spearheads of the movement in the last century when religious conservatism and economic conservatism came together right around the middle of the last century. My explanation for that is that both groups realized that they were fighting a common enemy, namely, the threat of world communism. One group saw communism as the antithesis of Western religion, and they were right. The other group saw communism as the antithesis of American free market, free enterprise economics, and they were right too. And I believe that what happened in the middle of the 20th century is that these two groups came to understand that they were fighting the same enemy, and that's what brought them together.

Larry Bernstein:

I want to go back to Adam Smith next.

Benjamin Friedman:

Sure.

Larry Bernstein:

You quote his, I think, probably his most famous quote, that the baker doesn't bake and the butcher doesn't get you the meat out of his love for you. He does that out of pure self-interest. And Smith says, that's okay, that self-interest is what's going to drive productivity and specialization, and it's going to

give you a whole bunch of consumer choices that you would otherwise not get. How does that concept of specialization growth fit in with, I'll call it 18th century religious ideas, that this is something that we should embrace where those same ideas may not fit well at maybe even your university today?

Benjamin Friedman:

Well, first place, I think you stated Smith's view exactly correctly. Smith understood that the key driver of behavior, especially in the economy, was self-interest. Smith has this lovely statement in *The Wealth of Nations* in which he says that the desire to better our condition, that's his phrase for it, to better our condition, comes with us from the womb and it stays with us until the grave and there is scarcely an instant in between when we're not subject to it. Of course, you could interpret bettering our condition in a variety of ways, but he then goes on to make very clear that it's our economic condition that we seek to better.

Now, other people have this insight too, that this is what drives economic activity. Bernard Mandeville for example, had that same insight 75 years earlier. So, what was new about Smith? Smith's contribution was to understand that the mechanism that allows my acting on my self-interest to make you better off and your acting on your self-interest to make me better off, and so forth throughout the economy, is competition carried out in markets.

This was a generation of people who were trained to think in Newtonian terms of system and mechanism. And before Smith, people knew this was true but they just had no idea why it was so. It was Smith who very carefully worked out the nature of competition carried out in markets. He showed that that's what allowed people acting on no more than their own self-interest, no altruism involved to take actions which make themselves, as well as other people, better off. So, it was a remarkable insight. It's the insight that remains at the core of modern Western economics 250 years later.

Larry Bernstein:

You also mention in your book that Smith questions people, or corporations, or economic activities that is not in their self-interest, that that very rarely advances human interests. How should we think about changing corporations from being profit maximizers to maximize community benefits. Would that one violate a core Smith belief?

Benjamin Friedman:

Well, Smith had these scathing things to say about the behavior of businessmen, and there weren't corporations in his day to speak of, but it's all part of the same story that Smith believed that competition in markets is what gave the economy its power to make people better off. Smith was a very insightful guy and he spent a lot of time interacting with the commercial community in Glasgow, in London, and Edinburgh, and he writes at great length about how businessmen are always trying to collude with one another. His word for that was combination, businessmen are always engaging in combinations. And in effect, you can think of Adam Smith as the father of antitrust policy. That for the same reason that he thought competition was so important, he was opposed to things that interfered with competition. He thought that one of the great problems in the world he faced was that businesses would collude, combine, conspire, he says, with one another.

Now, this bears on the modern corporation because to the extent that you have profit-seeking corporations that compete with one another, Smith would have thought that was just fine. But what he didn't like was the idea that some big corporation is able to dominate a market in a way that would block competition. That, to him, took away the power of the economy to make people better off.

Larry Bernstein:

I forgot the classic Smith quote, but he says something like, as soon as you put two guys in the same industry at the same table, within 12 to 15 minutes they're already talking about methods of anti-competition and collusion.

Benjamin Friedman:

Yep. It isn't that set of words, but you got the thought exactly right. That's what he said. I mean, Smith was a professor for a while, but this is not some armchair academic. This is a guy who knew a lot of business people.

Larry Bernstein:

I think one of the critical insights you have is that religion and a worldview shapes economic thinking. We are no longer in an 18th century enlightenment view, modern religion is way down and we have new quasi religions, I'll call it a belief in climate change or whatever, that does not relate to a God-centered universe. How do you think that that dynamic of thought will affect the next generation of economists?

Benjamin Friedman:

Well, I think it absolutely will. The view of scientific advancement I follow in the book, this is not original to me, is ... So I associate it with Einstein, but there are many other people. Einstein had the view that people reason from a worldview. The reason was that simply the world is too complex. We just have to have some way of cutting through the complexity, and so his idea was that people have a worldview. He was very clear, this is not just physicists. He said scientists do this, but he said poets do it and other philosophers. Well, where do people's worldviews come from? In my book, I lay out in quite a bit of detail why it's plausible to think that in the 18th century, when Adam Smith and David Hume were doing all of this really profound work, they lived in a world in which their worldview was importantly shaped by these religious controversies swirling all around them.

And now you point to today's focus on climate change. I think that's a perfectly good example. Today's individuals live in a world in which discussion of climate change is all around them, and it just can't help but be the case that their worldview is going to be influenced by that. And then in some way, that we are completely incapable of predicting their thinking in future years will be affected by the way in which this attitude toward climate is part of their worldview. I think that's absolutely consistent with the story, even though it's not the same religious thinking that spurred Smith and Hume.

Larry Bernstein:

We've seen a dramatic decline in religiosity in the G7, and it was this original religiosity that gave us the frameworks for economics. As the G7 moves away from these strong religious views, what does that say about the future of, I'll call it, embrace of the current economic framework?

Benjamin Friedman:

Well, here I distinguish very sharply between the United States what you say about the decline in religiosity is absolutely true of the other six members of the G7. But part of what I point out in my book is that the United States is very much an exception. If you and I were having this conversation 30 years ago, we probably would have talked about the so-called secularization theory. Secularization is happening, and has happened really, in Europe and of course in Japan, but it sure hasn't happened in the United States. People have moved away from the main line Protestant groups like the Episcopalians and the Presbyterians. But these Evangelical groups that we were talking about earlier are absolutely of energy and thriving and have lots of adherence. Jews, Muslims, Hindus, Buddhists, there's an enormous amount of activism in the religious sphere in the United States. So now we're getting into a realm in which I'm beyond my scope, because I think you need not an economist, but say maybe a sociologist to explain why it is that the United States has proved such an exception in this regard, but we certainly have.

Larry Bernstein:

In sociology, the most famous book on your topic is Weber's book on The Protestant Work Ethic.

Benjamin Friedman:

Absolutely.

Larry Bernstein:

How do you think about Weber's insights relative to your own? Where would you say you agree with him and where would you say you disagree?

Benjamin Friedman:

Well, you raise an interesting question because I sometimes characterize my hypothesis as Weber upside down. As many of your listeners will know, Weber famously argued that there was an aspect of Protestant religion that gave rise to capitalism, but mine is Weber upside down in that the key driving force for him was belief in predestination and, as I explained earlier, the key driving force in my view is the movement away from predestination.

Now, this doesn't mean that I think Weber was wrong, and I'll explain why in three ways. First, Weber was looking at an earlier period. Weber was looking mostly at the 17th century when all these American Puritans, for example, walked around believing that they were predestined either to be saved or not. I'm looking at a period a hundred years later, when Adam Smith and David Hume came into young adulthood and formed their worldview. So one difference is the difference of timing.

Second, Weber is looking at the influence of religion on economic behavior. He's interested in why these people went off and became industrious and saved their money and were thrifty and so forth and valued hard work. I'm interested in where economics came from in the sense of the thinking of the people whom you and I would both identify if we went through the list of names. We'd both identify them as economists pretty easily. So it's a difference between explaining doing and explaining thinking.

And then finally, the difference is that because of the people who develop any intellectual discipline and write down their views are necessarily the intellectual elites, Weber is looking at the ordinary run of citizens and I'm looking at the elites. So in all three of those ways, I think Weber's right and I think I'm right, and they don't contradict each other. But nonetheless, because Weber's about the effect of belief in predestination and I'm in the other direction, I think of what I've done in my book as Weber upside down.

Larry Bernstein:

Ben, thank you very much.

Benjamin Friedman:

Thanks, Larry. I enjoyed talking with you.