The Economic Process: An Instantaneous Non-Newtonian Picture

Carmine Gorga

Lanham, Maryland: University Press of America, 2002

A much better title for this book would have been simply: "The Costs of Hoarding." Carmine Gorga does put his finger on an economic reality often neglected by economists. Not all wealth is put to productive uses, and, when wealth is wasted in this way—hoarded—bad things happen to the economy.

Instead of stopping there, Gorga pushes his argument too far. He argues that the neglect of hoarding by economic theory means that all of economic theory needs to be rebuilt from the ground up. That includes everything from the theory of the firm to monetary theory to the theory of consumer behavior. And Gorga, in one volume of overwrought and discontinuous thought, attempts to do just that. This is similar to the charge that every single problem in the Catholic Church in the last thirty years has been caused by the abandonment of the Latin liturgy. Imagine writing three hundred fifty pages explaining how Christian doctrine, governance, and spirituality have been destroyed by the vernacular. In Gorga's case, those pages would all explain how two hundred years of economic thought have nearly been for naught due to the omission of hoarding as the centerpiece of analysis. Not surprisingly, one must gravely oversimplify these issues in order to make such a claim.

Most economists would stipulate that hoarding hurts the economy. The individual who chooses to give up liquidity for useless material goods makes a bad bargain for himself. Ultimately, the market punishes those who engage in a strategy of self-impoverishment. If enough people hoard their wealth, the size of the economy would certainly shrink. But why would anyone do this? What evidence is there that individuals and firms pass up genuine profit opportunities for the option of burying their talents in the ground? Gorga provides no empirical evidence that hoarding is a significant problem. If it were a significant problem, then perhaps the issue would deserve some tightly focused attention.

It should be obvious from this summary that this book is far from the mainstream in economic thought. There is little here that will attract the interest of those who follow the progress of economic science. Gorga's book proves that it is much easier to attempt to reinvent the wheel from a new physics than it is to make real, though limited, contribution in the marketplace of economic ideas.

What is unfortunate is that Gorga missed an opportunity to bring to bear his substantial background in classical economics on an analysis of the causes of hoarding. Clearly, people hoard as a hedge against uncertainty. It is true that the basic Keynesian spending model does not account for this possibility. In that case, the amount of savings by households might not equal the amount spent in investment by firms. Hoarding, then, must be a function of a household's effective time horizon, the stability of recent economic activity, and the availability of reliable information about the future. Thus, the economic significance of hoarding ought to be inversely proportional to economic stability. One might see a great deal of hoarding, with grave negative consequences, in societies where property rights are insecure, where contracts are not enforced, or where monetary mismanagement destroys the reliability of the price mechanism. What might result would be empirically testable propositions that could be tested in sub-Saharan Africa, in contemporary Argentina, or in any other place where the invisible hand has ceased to function.

Gorga would agree that hoarding is fundamentally a moral issue, something that should be of great interest to those concerned with ethics in the marketplace, but he missed an opportunity to explore the function of all those economic institutions—the savings bank, the mutual fund, the insurance company—that serve to deter hoarding by offering a less-costly hedge against disaster. The fact is that the existence of hoarding represents a profit opportunity to those firms that can find a way to eliminate it. It may be that the existence of hoarding may not represent a moral failure as much as it reflects the failure of institutions that should correct it. Indeed, the real story here is how *little* hoarding there is, rather than how much.

It is important to remember that modern economic theories are not meant to be descriptively accurate. They are meant to be testable by empirical means, but the most testable theories are the simplest, the same ones that seem least plausible in terms of their assumptions. The one thing that the theory strives for is *microfoundations*, a theory grounded in the behavior of rational, self-interested firms and individuals. This does not mean that there is no room for a reflective philosophy of the free market system, a philosophy that operates from a richer set of assumptions. But if one wants to invent a new *science* of economics, as Gorga seems to attempt with his self-branded Concordian economics, then one must enter the ongoing conversation more humbly, with less-extravagant claims.

—Mark Broski, O.S.B
James Buchanan Center for Political Economy,
George Mason University

The Ethics and the Economics of Minimalist Government

Timothy P. Roth

Cheltenham, United Kingdom: Edward Elgar, 2002 (134 pages)

The primary aim of Timothy Roth in this book is to expose the fundamental problems of modern, social welfare economics and to offer up a Kantian/Rawlsian alternative. At the outset, Roth rightly points out that Adam Smith was known in his day as a moral philosopher and that his work in economics was merely an offshoot of his larger moral theory. In fact, even before Smith, economic thinking was always a component part of the broader study of moral philosophy and theology. Nevertheless, positivist analysts today attempt to deny any link to moral theory and typically assert that their activities