

Responses to an Inquiry on S. N. S. Cheung's Economics

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Continuing your discussion on the panel at the conference with Prof. Cheung and Barzel et al., may I ask again how would you define the Washington School of Economics?

The Washington School was one of a handful of graduate programs taking "price theory" seriously applied to real puzzles of economic action (Chicago, UCLA, Rochester in some moods, the University of Virginia when James Buchanan was there, then Virginia Tech when Buchanan was there, and nowadays George Mason University, where he ended his career). "Taking price theory seriously" means (1.) driving an analysis forward until all opportunities for profit by all the actors in the economic situation have exhausted all opportunities for profit and (2.) believing that such analysis actually applies to the world, and (3.) then actually studying the world instead of merely polishing a previously published model. Most graduate programs in economics (Harvard, which was my school; Princeton; and so forth) viewed microeconomics as a mathematical field having little to do with actual behavior. The price theorists, by contrast, viewed microeconomics as all about applications to actual behavior. The Washington School, led by Barzel, was (like UCLA, where Cheung graduated) especially focused on property rights and contracts about those rights. Cheung fit right in. The University of Chicago at the time was more interested in wider issues, instead of the detailed studies of property rights in bees or lighthouses or beaver hunting that fascinated people from UCLA, Washington, and Ronald Coase.

What is Cheung's legacy in it?

His main legacy was persuading Douglass North at Washington to take property rights seriously in economic history. No Cheung, no North.

To what extent do you agree that Washington School's influence in the mainstream economics (especially in microeconomics) nowadays is more limited than you would have expected 30 years ago?

Yes, and a pity. But we keep trying to get economists to do real economics, that is, to study how actual economic situations arise!

And why is that the case?

The tricks of mathematics are too tempting. Mathematical ability is used as a way of selecting students for graduate programs. "Real analysis" is used as an IQ test, even though this calculus-on-steroids involves proofs of no use in a science. Most of the students therefore never learn seat-of-

the-pants economics. My textbook *The Applied Theory of Price* is going to get a new edition, subtitled as *A First Graduate Text*. Let us hope it works.

In the panel discussion, most of you have agreed that the methods Cheung practiced in economics, namely using real world events as the foundation for formulating general theories,

I don't quite see it that way. It is more that Cheung and others, such as I myself, use real-world examples to inspire serious thinking about Why. Look at my old work on open field agriculture, for example. It is not merely a matter of generalizing from examples (which is a naive view of science). Not at all.

Crucial to Cheung's approach (and mine and Barzel's and Friedman's and the new Austrian empiricists) is asking of any explanation put forward, How do you know? Is that really correct? Is the explanation consistent with people picking up all the \$20 bills left on the sidewalk? What criticisms can be made of the conventional explanations? For example, the behavioral economists are very willing to suppose that people are stupid. If they are, though, why doesn't an industry arise to (1.) exploit their stupidity until it is driven out of profitable business and (2.) to sell people advice or high quality goods (at a higher price)?

are seldom practiced nowadays.

True, although it was never *widely* practiced. Most economists do not have the critical skills that Barzel and Alchian and his star student Cheung have. The economists are in that respect lazy!

Why do you think economists are less willing to engage in such kind of methods?

Because they are in love with the mathematics of maximizing under constraints, and rush to the solutions without testing their assumptions carefully against the actual economic behavior they are trying to understand. They never ask anyone anything. One way of asking is Cheung's, going around to scores of *xian* and asking, for example. Another is to read deeply in the culture, because in poetry and plays and novels and movies and sacred texts and philosophy people explore what they are doing.

Why can't it co-exist with other methods like mathematical modeling, or econometric-based empirical research?

It can, but one needs to really know the facts of the situation before committing to a mathematical model or running an econometric regression. Many economists believe that you do not need to know anything about, say, the way the housing market actually operates to do a quick study of the role of, say, real estate agents in the market. Just have a variable REA.

Your classic article "The Rhetoric of Economics" is one of my all-time favorites. If we took the arguments you have made in that classic article, and use them to "evaluate" Prof. Cheung's method and research, what would you say are the pros and cons of the Cheungian/Washington School ways in practicing economics?

Cheung asks. That's the essence. Asking is not part of the official rhetoric of economics. Yes, it sounds insane. Why wouldn't you go and ask business people what they think they are doing?! It's part of the evidence, surely. To put it in a way that Cheung might not agree with---although he might, being a very widely cultivated man---Cheung and Barzel and Coase and Alchian and a few others practice what I call "humanomics," using *all* the evidence of human action. The Austrian economists, when as at George Mason they do factual inquiries, also practice humanomics. They let the humanities in, all the ways of understanding humans.

To what extent would you agree that Prof. Cheung's decision to go back to Hong Kong in the 1980s, and focus on writing Chinese articles about China's economic developments, is also a reason that his powerful ideas haven't been taken up in modern microeconomics?

We may solve that by publishing the English translation of Cheung's five-volume textbook. But, no, Cheung could not hold back the tricks of formalism in economics. The tricks had to be tried. Maybe now we can get back to explaining economic behavior.

If you have a chance to "reboot" Cheung's economics, how would you do it?

I would translate his text. In fact, I am helping him a little to do so.

Would you add a mathematical model interpretation of his ideas?

It's already been done---maximize under constraints is Cheung's go-to model, too. But what makes his economics special, Washington-style, is that he actually looks into what is going on in a market. Indeed, that's another point: the Cheungian economists, such as myself, are interested in whole markets, with all the participants in play, instead of individual behavior, such as the ill-named "behavioral economics," which is a reinvention of psychology, not market economics.

Would you try to reconcile it with the contract theory that Oliver Hart et al. practicing?

No. Williamson is just two-by-two bargaining. He is shockingly uninterested in how actual organizations operate.

Or do you have any other ideas?

Yes: humanomics.

I have always been wondering how other elite economists think about Prof. Cheung's works.

Most of them would not consider it real science, because it is not expressed mathematically. Such a judgment is of course childish.