THE
SELECTED
WORKS OF
GORDON
TULLOCK
VOLUME 9

Law and Economics
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OF GORDON TULLOCK

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Law and Economics

GORDON TULLOCK

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Liberty Fund
Indianapolis
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INTRODUCTION

*Law and Economics* brings together Gordon Tullock’s innovative contributions to the economic and public choice analysis of law and legal institutions. This volume reproduces in full the contents of two books, namely, *The Logic of the Law* and *The Case against the Common Law*. It also includes selected chapters from *Trials on Trial* and a number of articles published in scholarly journals.¹ As will become apparent, Tullock’s insights from public choice set his work radically apart from the mainstream literature of law and economics, which consistently emphasizes the efficiency of the common law and of the common law process.²

The Intellectual and Historical Background

The law-and-economics movement originated in the United States and was transmitted subsequently to other countries.³ Almost inevitably, therefore, the immediate antecedents to the movement emanated from within the United States, even though the founding article, by Ronald Coase, was written by a quintessential Englishman who, at the age of forty-one, had migrated across the Atlantic only nine years earlier, when already in mid career.⁴

Since 1870, American jurisprudence has been characterized by a complex and changing pattern of ideas, with swings between legal formalism and legal realism that never completely ousted legal formalism, or the “black letter” law.⁵ Yet, these swings opened up an avenue for the law-and-economics movement and, ultimately, for Tullock’s contributions to the field.

Formalism was prevalent in many areas of knowledge during the late nine-

teenth century, as scholars sought to treat particular fields as if they were governed by “interrelated, fundamental and logically demonstrable principles of science.” This trend was discernible during the immediate post–Civil War period of American legal history and was subsequently reflected in two separate concepts: in the universities, there emerged the Langdellian science of law; in the courts, there emerged the philosophy of laissez-faire.

In 1870, Harvard University appointed Christopher Columbus Langdell to the newly created position of dean of the Harvard School of Law. Langdell quickly determined to resolve the perceived chaos of American jurisprudence by promoting legal science through the case method of legal instruction.

Langdell’s legal science consisted of four elements: first, the rule of *stare decisis et non movere* (let existing laws stand), which in Langdell’s judgment is the key to the science of law; second, the recognition that most reported cases are repetitious of extant legal principles and precedents; third, the fact that the number of fundamental doctrines is limited because only a small number of cases are truly relevant to the science of law; and fourth, the need to classify these legal doctrines and to demonstrate their logical interconnection.

Langdell’s revolution in the method of instruction swept across the American academies and provided the basis for a legal formalism that dominated American legal education for at least half a century. It proved to be a tremendous force for harmonizing the American common law system at both the federal and the state levels.

The second facet of legal formalism—the tradition of laissez-faire—was a product of the courts. Laissez-faire was conceived of by the courts as the freedom of individuals to strike or not to strike a bargain. This was viewed as a cornerstone of a genuine legal science. In particular, the U.S. courts were influenced by the writings of Herbert Spencer, whose books *Social Statics* and *The Man versus the State* ushered in the notion of social Darwinism, or the survival of the fittest.

This concept involved the courts in ensuring that the burden of regulation was focused on the private realm of the market and not on the public realm of government. The appropriate framework for settling economic disputes

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6. Ibid., 10.
was private rather than public law. “Private relations between economic actors were to be governed, not by statutes, but by the contractual rights and duties accepted by those actors.”

From the U.S. Supreme Court downward in the federal court system and throughout the large majority of state court systems, the courts opposed government regulation of private economic relations and put in place a social Darwinist legal system that was to survive more or less intact until the mid-1930s. Inevitably, the judgments recorded by those courts became part of the science of law as discovered through the casebook method in the formalist U.S. academies.

As early as the late nineteenth century, however, social Darwinism was being challenged both in the academies and within the court system. Best known among the early legal challengers were Oliver Wendell Holmes Jr., Benjamin Nathan Cardozo, and Roscoe Pound. Although their attacks were directed more against social Darwinism than against legal formalism, in matters of economic regulation they could not attack the one without the other.

Perhaps the most famous early legal challenge to social Darwinism occurred in the dissenting opinion of Justice Holmes in the Supreme Court decision in *Lochner v. New York* (1905). In this case, the Court declared that a New York statute setting a ten-hour maximum workday for bakers violated the stipulation in the Fourteenth Amendment: “No state shall... deprive any person of life, liberty, or property, without due process of law.” In dissent, Justice Holmes observed: “The Fourteenth Amendment does not enact Mr. Herbert Spencer’s *Social Statics.*” This sentence became something of a rallying cry for the legal realists when they came on the scene some fifteen years later.

By the end of World War I, formalism had become stale, leaving a void in American legal scholarship. The jurisprudence of legal realism evolved to fill this void, presenting a direct challenge to Langdellian science. It is important, however, not to exaggerate the skepticism of the legal realists. For the most part, they did not view the law simply as what judges do when settling disputes on the basis of the whim and fancy of the moment.

Rather, the mood of the realists was one of dissatisfaction with the notion that twentieth-century legal thought should be dominated by a nineteenth-century legal worldview. The key contributors to legal realism, Karl Llewellyn, Jerome Frank, Underhill Moore, William O. Douglas, and Robert Hale, did not always agree with one another on the meaning of realism itself, though

they coalesced in a dislike of Langdellian formalism. The law schools of Yale and Columbia universities became centers for this dissident approach.

Late-nineteenth-century developments in economics in the United States had challenged the validity of classical economics, most especially with respect to its support for the idea of free market exchange. An influential group of institutional economists, including Thorstein Veblen, John Bates Clark, Henry Carter Adams, Richard T. Ely, and E. R. A. Seligman, attacked the principle of laissez-faire on the grounds that it had failed to resolve problems of unemployment and poverty. They argued in favor of social justice, without socialism—namely, for economic regulation rather than for the widespread nationalization of the means of production.

As progressive lawyers became drawn to the methods of the social sciences, it is not surprising that institutional economics proved to be an attractive proposition. Thus it was that legal realism, following the intellectual lead provided by institutional economics, came to challenge legal formalism in the courts. Most important, during the 1930s, the legal realists, in support of New Deal legislation, contributed significantly to the demise of the private black letter law by helping to reverse a consistent five-to-four majority of Supreme Court justices, most notably, in the 1937 judgment in *West Coast Hotel v. Parrish*, which overturned a long line of precedents stretching back to *Lochner v. New York* (1905).

The intellectual significance of legal realism lies not in any concrete linkage between law and social sciences, for this did not occur before the beginning of World War II, when legal realism effectively disappeared and legal formalism reasserted its dominance. Rather, the legal realists sowed seeds that would germinate in the post–World War II period, initially with respect to antitrust law and economics and, later, with respect to the law-and-economics movement.

The law-and-economics movement developed at the University of Chicago during the 1960s, within an economics tradition far more favorable to the free-exchange model of classical political economy than was mainstream economics at that time. It was, moreover, an economics tradition markedly hostile to the interventionist, institutional approach that had so attracted the legal realists during the 1930s.

In a sense, it also turned out to be a movement that incorporated some of the formalism of the Langdellian era, albeit based on the notion that the common law should be, and is, economically efficient or wealth maximizing for society. From this perspective, *stare decisis*, properly interpreted, enables the law to evolve efficiently in conformity with changing economic conditions.
In 1960 Ronald H. Coase launched the law-and-economics research program, from the University of Virginia, with a seminal paper titled “The Problem of Social Cost.” The paper was written in response to criticisms that Chicago economists leveled at his 1959 essay, “The Federal Communications Commission.” “The Problem of Social Cost” was concerned “with those actions of business firms which have harmful effects on others.” In essence, it was an attack on Pigou’s solution to this problem as outlined in *The Economics of Welfare*:  

The traditional approach has tended to obscure the nature of the choice that has been made. The question is commonly thought of as one in which A inflicts harm on B and what has to be decided is: how should we restrain A? But this is wrong. We are dealing with a problem of a reciprocal nature. To avoid the harm to B would inflict harm on A. The real question that has to be decided is: should A be allowed to harm B or should B be allowed to harm A? The problem is to avoid the more serious harm.  

On the assumption that the pricing system works smoothly and without cost, Coase deploys an example in which straying cattle destroy crops on neighboring land. The example demonstrates that the value of production will be maximized whether liability falls on the cattle owner or on the farmer. Under such circumstances, as long as the court assigns liability, the nature and direction of that assignment will not affect the final outcome in terms of economic efficiency.

Coase recognizes that the price system rarely works without cost and that the zero-transaction-cost assumption typically is inappropriate when evaluating the consequences of a legal dispute. Where transaction costs are high, the decision of the court—or in its choice of the direction of liability or in its choice between granting an injunction (a property rule) or imposing liability to pay damages (a liability rule)—may result in outcomes that do not maximize the value of production for society as a whole. A significant question then arises as to whether a particular common law system is economically efficient.

As the law-and-economics research program took off, during the 1960s and the 1970s, its focus shifted somewhat from the Coasian preoccupation with the implications of legal rules for economic efficiency toward the use

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of economic theory to explain and to justify the common law system. Ultimately, Richard A. Posner emerged as the dominant “fast-second” figure in this program, in both its normative and its positive dimensions. Tullock beat him to the punch, however, with his seminal book on law and economics, *The Logic of the Law*, published in 1971, two years before Posner’s magnum opus.

**Gordon Tullock’s Contributions to Law and Economics**

This volume demonstrates Tullock’s independence from the mainstream law-and-economics research program and highlights, in particular, the full range of his critique of Posner’s 1973 hypothesis that the common law is economically efficient.

The only formal training in economics that Tullock received was a one-semester course by Henry Simons at University of Chicago Law School. Simons is best known for his monograph *A Positive Program for Laissez-Faire*, published in 1934, during the Great Depression. Simons was a utopian, a disciple of Jeremy Bentham, whose 1776 monograph, *A Fragment on Government*, had first introduced utilitarian thinking to legal jurisprudence.

Central to Bentham’s utilitarian ethic was the axiom “It is the greatest happiness of the greatest number that is the measure of right and wrong.” From that perspective, Bentham argued that the theory and practice of law could be reconstructed from first principles. Creating correct law would lead to happiness; and the creation of correct law meant reasoning from first principles rather than adopting “the piled up rubbish of ancient authority.”

It is not surprising, in these circumstances, that Tullock’s first contribution to law and economics, and the first contribution to this volume, *The Logic of the Law*, conveys a distinctly Benthamite tone. In *The Logic of the Law*, the first book ever published on law and economics, Tullock refers explicitly to Bentham’s failed reforms of the English legal system and claims that “since we now have a vast collection of tools that was not available to Bentham, it is

possible for us to improve on his work” and “hopefully this discussion, together with empirical research, will lead to significant reforms.”

The tools on which Tullock draws come from the new welfare economics, essentially the Pareto principle buttressed by the Kaldor-Hicks potential compensation test. This approach requires that, in order for that change to be acceptable to society, the gainers from any change in a legal rule must be able, in principle, to compensate the losers while themselves remaining better off from that change.

Drawing also on his work with James M. Buchanan in *The Calculus of Consent*, Tullock focuses on the long-run application of the Pareto principle under conditions of uncertainty. He seeks, on this basis, to show that some legal reforms that may be expected to meet with short-run resistance from losers nevertheless may be accepted unanimously, if viewed as applying to the long run, given individuals’ uncertainty regarding their own and their descendants’ likely long-term relative positions in society.

On this basis, Tullock launches a review of the foundational principles of the law. He shows what happens when, abandoning the traditional view of the law as an extension of broad moral philosophy, we apply instead some of the concepts and procedures of Paretian welfare economics.

In a wide-ranging discussion that embraces all the major areas of U.S. law and law enforcement—from contract and negligence law to robbery and murder, from the treatment of minors and incompetents to the punishment of habitual offenders—Tullock derives optimal rules and procedures that differ markedly from those that prevailed in 1971.

Because *The Logic of the Law* represented a foundational challenge to the legal system of the United States rather than a textbook on law and economics that rationalized the existing legal system, Tullock’s book failed to make the impact on the new discipline (especially on lawyers) that Posner’s 1973 book surely would. In a fundamental sense, however, *The Logic of the Law* was the precursor to *Economic Analysis of Law* in its application of economic analysis to the U.S. legal system.

“The ‘Dead Hand’ of Monopoly,” coauthored with James M. Buchanan, applies economic analysis to antitrust policy. Buchanan and Tullock explain that although those who initially obtain a monopoly, either through

innovation or through government privilege, frequently benefit from that acquisition the benefits are quickly capitalized. Thus, current holders of the monopoly typically earn only a normal return on their investments.

If the monopoly is eliminated by antitrust policy without full compensation, the current holders of the privilege suffer an "unjust" capital loss. Buchanan and Tullock also demonstrate why current taxpayers will rationally resist providing such just compensation for removing a monopoly, thereby lowering commodity prices for a future generation of consumers.

In "Does Punishment Deter Crime?" Tullock compares two arguments in favor of punishing criminals, namely, that punishment deters crime and that punishment rehabilitates criminals. For the most part, economists writing during the 1960s and early 1970s favored the notion that punishment deterred crime, whereas sociologists did not. Tullock presents evidence from both sources that strongly supports the deterrence hypothesis. Sophisticated statistical studies demonstrate that several innocent lives are saved for each murderer who is executed. Tullock can find no evidence that rehabilitation programs deter crime. Under such circumstances, society must opt either for the deterrence method or for a higher rate of crime.

"Two Kinds of Legal Efficiency" notes that in discussing the efficiency of the law it is important to distinguish between two quite different issues. The first is whether the law itself is well designed to achieve goals that society regards as desirable. The second is whether the process of enforcing the law is efficient. Tullock notes that if the law itself is inefficient, inefficient enforcement of that law may be desirable. In deciding whether a law or its enforcement is efficient, Tullock argues that careful empirical research is essential, not least with respect to the magnitude of transaction costs.

"Optimal Procedure" outlines the characteristics of a desirable court system and evaluates the trade-offs between the various desirable characteristics. Tullock acknowledges that accuracy and low cost rank high among these characteristics. He demonstrates that the social value of these two characteristics is somewhat indirect and that the characteristics are difficult to measure. From this perspective, Tullock critically evaluates the efficiency of the Anglo-Saxon common law, where criminal cases must be proved beyond all reasonable doubt and where civil cases must be proved on the balance of probabilities.

"Technology: The Anglo-Saxons versus the Rest of the World" directly compares the adversary system deployed by the former with the inquisitorial system deployed by the latter with respect to accuracy and cost. The most significant legal costs of the adversary system are attorneys’ costs. Those costs
are under the direct control of the litigants. Yet, Tullock notes, because each litigant desires to win, competitive bidding raises attorneys’ costs above the efficient floor. Moreover, the party who believes himself to be in the wrong has a strong incentive to elevate his litigation costs in order to lower the probability of an accurate judgment.

The most significant legal costs of the inquisitorial system are judges’ costs. Greater outlays on the judiciary should increase the accuracy of legal judgments; however, the party who believes himself to be in the wrong has no incentive to increase judicial costs. Tullock argues, on efficiency grounds, for the replacement of the Anglo-Saxon by the inquisitorial legal system in the United States.

“Various Ways of Dealing with the Cost of Litigation” evaluates, from an economic viewpoint, methods of paying lawyers’ fees as alternatives to the straightforward fee-for-service method (under the Anglo-Saxon system). Tullock explores the implications of the contingent fee arrangement, whereby attorneys offer their services to plaintiffs (but not to defendants) in return for a substantial share of any awarded damages. He explores the implications of the English system, whereby the losing party bears all the litigation costs, and of legal aid systems, whereby the government subsidizes some low-income litigants. Throughout, he weighs the implications of each remuneration system against the twin objectives of an accurate but a low-cost legal system.

“The Motivation of Judges” subjects judicial behavior, in both Anglo-Saxon and inquisitorial systems, to rational choice analysis. Tullock concludes that while both systems try to avoid negative incentives for high-cost, inaccurate outcomes it is extremely difficult to establish positive incentives for low-cost, accurate outcomes. In the case of contracts, parties may prefer to provide for arbitration rather than litigation. Tullock suggests that fee-based arbitration may be superior to litigation in terms of the economic efficiency of expected outcomes.

“Defending the Napoleonic Code over the Common Law” summarizes Tullock’s overall assessment of the respective advantages and disadvantages of the two legal systems. On balance, he prefers the Napoleonic Code while acknowledging that there is scope for further research on the two legal systems. In making this judgment, Tullock focuses attention on three alleged deficiencies of the Anglo-Saxon system, namely, trial by jury, reliance on the accusatory rather than the inquisitorial method, and reliance on particular exclusionary laws of evidence that prevent juries from hearing relevant information.
“Negligence Again” analyzes the unrealistic assumptions used by law-and-economics scholars to justify, in terms of economic efficiency, the use of the negligence rule to decide accident cases. Tullock demonstrates that several other legal rules, including strict liability, also satisfy the efficiency criterion under these assumptions. Tullock notes that the probability of error, both in the calculations of risk by the parties and in the ex post determination of the outcome in the courts, is so high as to justify other, more rough-and-ready solutions, including that of no-fault liability, coupled with private insurance against accidents.

“Welfare and the Law” takes the arguments advanced in “Negligence Again” one stage further in a detailed challenge to the scholarship of Richard Posner. Specifically, Tullock argues in favor of utility maximization rather than wealth maximization (as advanced by Posner) as a desirable goal of the common law, but not as a highest-level goal (as also advanced by Posner). He argues that transaction costs of the law are more complex and widespread than those admitted by Posner and that they justify a much simpler and more limited legal code than that currently in existence.

The Case against the Common Law is a beautifully written monograph that summarizes Tullock’s case against the Anglo-Saxon common law system. The monograph presents a powerful rational choice case for replacing the common law with a civil code system.

Central to the social functions and the foundational principles of the common law system, argues Tullock, was the concept of doctrinal stability encapsulated in the institutional principle of stare decisis, or binding precedent. The standard of doctrinal stability cannot survive significant deviations from the principle of stare decisis.

Tullock demonstrates how the twentieth-century retreat from stare decisis in the U.S. common law system was a predictable consequence of adverse institutional characteristics. He concludes that this withdrawal is now sufficiently extensive as to challenge the validity of the common law system itself. For what is now left—the surviving kernel of a once-robust system of law—is a high-cost, subjective, unresponsive, nonreplicable, and essentially illegitimate legal system predicated more on the rule of men than on the rule of law.

In part because of his public choice analysis of the U.S. legal system, and in part because of his insistence on viewing the common law courts as high-cost purveyors of legal error, Tullock is considered a maverick by both the law-and-economics scholars in particular and the legal profession in general.
Yet, Tullock’s talent for careful observation of real-world institutions and his capacity to explain what he sees in terms of the rational choice model provide valuable, and often overlooked, insights into the true nature of the legal system.

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The Logic of the Law
PREFACE

Not long ago a British barrister told me that we should have drastic overhauls of the law, and completely re-examine legal procedures, only about every 200 years. Normally, he felt that the law should proceed by gradual development without any effort to return to first principles. I pointed out to him that the two-hundredth anniversary of the year when Jeremy Bentham first began to press for law reform was rapidly approaching, and that if any of the changes now proposed took as long to implement as the Benthamite changes, we would have another two-hundred-year interval until the time they come to pass if we started thinking about radical revision now. Since he had intended his argument essentially as a protest against any basic reconsideration of the law, my remark rather took him unawares. However, being one of the most rational of men, he conceded that upon his own premises it was time to begin to consider legal reform.

This volume is an effort to start such a basic reconsideration. At most times and, for that matter, at the present time, there is a great deal of public dissatisfaction with the law, and a good many proposals are being canvassed for reform. In general, however, this dissatisfaction and these proposals for reform take most of the law for granted and merely propose to change minor details. Bentham, of course, attempted to go back to basic principles and examine the law in its entirety. Although the changes Bentham eventually succeeded in implementing were fairly drastic, the foundations of the law are much the same as they were before he was born. It seems likely that any rethinking of the law will conclude that the law is fundamentally rational, and changes, even those as drastic as the Benthamite reforms, will leave a great deal of the basic legal structure intact.

A great many changes have occurred since Bentham’s day, such as the great development of social science. Since we now have a vast collection of tools that was not available to Bentham, it is possible for us to improve on his work. Another modern advantage is the existence of a large community of scholars. The most desirable effect of this book would be to start a scientific discussion of the foundations of the law. Hopefully this discussion, together with empirical research, will lead to significant reforms. In any event, it is

reasonable to look at the law _de novo_—to go back to basic principles and attempt to develop a logical structure. The conventional legal scholar will no doubt regard my methods as a radical departure from those to which he is accustomed. He will be correct. In a sense, my book is an attack upon the traditional methods of legal scholarship, which takes the form, however, not of direct criticism but of a presentation of a different procedure that I believe to be superior.

My own formal education was in the law (D.J., University of Chicago, 1947), but the methods used in this book are those of modern welfare economics. A few legal scholars—Calabresi, Blum, and Kalven come immediately to mind—have begun applying similar methods to various aspects of the law, but most law professors have never even thought of using them. This book makes no moral assumptions, and it is strictly utilitarian in its approach to legal institutions. In this I follow Bentham, but I have an advantage over him: that of modern welfare economics. As the reader will discover in Chapter 1, I even have a modification of welfare economics to suggest. It seems to me that these tools give us an advantage. Hopefully, this book will merely be a first step in the application of modern welfare economics to an analysis of legal problems. Our present legal system cries out for reform, and improved knowledge is a necessary prerequisite for genuine reform. It is my hope that many other scholars will push forward along the lines that I have followed.

This book is intended to begin discussion in a new field; it applies the latest tools of the social sciences to the law and to legal institutions. Eventually, after a number of other scholars have added their work to mine, it should be possible to improve our present legal institutions and our law. The substantive improvements, however, will probably not be gigantic. Although there are areas in which, if I am correct, our present law is far from optimal, the changes I propose in general are not of a revolutionary nature. In many cases, in fact, all I propose is that what we say be made to conform to what we actually do. To repeat, if the actual changes that I suggest are relatively modest, the foundations of my reasoning are radically different from the tradition.

Still, I feel confident that, at the very least, it is worthwhile to experiment with new techniques. The law is an important area and deserves every bit of light that can be shed upon it. Even those who think my light faint and flickering should agree that it will do at least some good. Economists are likely to feel that the tools I am using are correct. Indeed it is partly my own economic experience and partly my desire to attract economists into the field that have led me to use these tools in an extremely strict way. Actually, it is possible to