

# The Economics of Albert Einstein

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Albert Einstein was the most extraordinary physicist of the 20<sup>th</sup> century. In a series of papers published between 1905 and 1916, he expanded and changed forever people's conception of the universe.

Accordingly, Einstein became in his own time, in the words of one of his biographers, "a living legend, a veritable folk hero, looked upon as an oracle, entertained by royalty, statesmen, and other celebrities, and treated by the public and presidents as if he were a movie star rather than a scientist."

No wonder 2005 has been declared in Germany as "The Year of Einstein" in due recognition of the hundredth anniversary of the publication of his seminal 1905 papers.

Yet what is remarkable is the extent to which Einstein was asked to comment on many of the important social, economic, and political issues of his day. What is equally remarkable is how his economic and social commentaries, which have been collected into volumes, were generally undistinguished, reflecting his uncritical adoption of the prevailing socialist/anti-capitalist ideology of his era. He seems to have based many of his criticisms of market economies on his own brand of the Marxian "surplus value of labor," which he espoused in a piece collected in a little book on *The World as I See It*:

By using the means of production, the worker produces new goods which become the property of the capitalist. The essential point about this process is the relation between what the worker produces and what he is paid. . . [W]hat the worker receives is determined not by the real value of the good he produces, but by his minimum needs. . .

Following Karl Marx and Thomas Malthus, Einstein reasoned that wages tended always to be suppressed to the level of "minimum needs" of workers by competition, to the ultimate benefit of

the small but dominant capitalist class. According to Einstein, wages in the United States were relatively high (above the minimum needs of workers) only “because the country is sparsely populated” relative to available resources.

Einstein explained the Great Depression as the inevitable consequence of the relentless drive of technology that allowed capitalists to save labor:

As I see it, this crisis differs in character from past crises in that it is based on an entirely new set of conditions, due to the rapid progress in the method of production. Only a fraction of the available human labor in the world is needed for the production of the total amount of consumption-goods necessary to life.

Accordingly, while he at times lauded free enterprise for the technical progress the system engendered, Einstein held disdain for unfettered capitalism because “unlimited competition leads to a huge waste of labor, and to that of the crippling of the social consciousness of individuals. . . This crippling of individuals I consider the worst evil of capitalism.” In Einstein’s world view, technology also led to a concentration of economic power in the hands of a few firms: “This dominant economic minority, heretofore autonomous to no one, has placed itself in opposition to limitation of its freedom of action, demanded for the good of the whole people.”

Einstein advocated several solutions for unemployment in the 1930s, all but one of which are riddled with the type of soft economic thinking prevalent among pre-World War II socialists:

- 1) Reduce the workweek so that unemployment will be “systematically abolished.”
- 2) Establish a minimum wage “in such a way that the purchasing power of the workers keeps pace with inflation,” so that workers have the means to buy the excess output.
- 3) Control the prices charged by “those industries which have become monopolistic in character. . .,” which would not only increase the purchasing power of worker wages, but would also have the side-benefit of constraining investment in labor-saving technology.

4) Exclude older people from “certain sorts of work (which I call ‘unqualified’ work), receiving instead a certain income. . .”

5) Organize “production, labour, and distribution” according to a “definite plan, in order to prevent valuable productive energies from being thrown away and sections of the population from becoming impoverished and relapsing into savagery.”

6) Control the money stock and volume of credit “to keep the price-level steady” (the only solution of the six that many mainstream/market-oriented economists today might find agreeable).

With such a six-point recovery policy strategy, Einstein believed “it might be possible to establish a proper balance between production and consumption without too great a limitation on free enterprise, and at the same time to stop the intolerable tyranny of the owners of the means of production (land, machinery) over the wage earners . . .”

What is paradoxical about Einstein’s frequently expressed concerns for the fate of the human population is that his philosophical disposition toward everything scientific was molded by the belief that the laws of physics applied everywhere and for all time, making the future of the universe in all its details “every whit as necessary and determined as the past.” If so, why bother with concocting strategies for social improvement here on Earth?

This year, we rightly celebrate Einstein’s science, but certainly not his economics that he shared freely and widely with scholars and policy makers of his era. Fortunately, we can thank a host of pro-market public academics and intellectuals –most notably Friedrich Hayek, Milton Freidman, and Bill Buckley -- for ensuring that the folly of Einstein’s economic reasoning would today be widely recognized.

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