

Economics and Neoliberalism

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Neoliberalism is the ideology of our time. And of New Labour and Tony Blair. What happens after Blair becomes seriously interesting if we suppose that within the Labour Party Neoliberalism could be dethroned. Although this event hardly appears immanent, it could be brought forward if the nature and location of the breeding ground of the Neoliberal beast became public knowledge.

For a quarter of a century people to the left of what was once a staunchly right-wing position (too rightwing for the rightwing of the Labour Party) have been struggling against Neoliberalism with ever diminishing success. This failure has taken place despite much cogent analysis of the sociological and geopolitical forces fuelling the Neoliberal conquest. The working assumption has been that if Neoliberalism's books could be opened so that the world could see who its real winners and losers were and the extent of their winnings and loses, then citizens would see the light and politicians of good will would repent and political process would once again enter into a progressive era. *This essay breaks with that tradition.*

While I wholeheartedly agree that the analysis described above is a necessary condition for stopping Neoliberalism, I am no less certain that it is not by itself a sufficient condition. Understanding the consequences of Neoliberalism is not enough. We also must understand where this intellectual poison comes from and the primary channel by which it continues to be injected into the body politic. It is only then that we can stop or reduce its flow. Heroin addicts are not cured merely by informing them of the consequences of their addiction.

Neoliberalism's intellectual origins seem little known and poorly understood. Its abstract complexity, its improbable association of ideas, its institutional convolutions and its long period of gestation make its history difficult to grasp and comprehend. Yet understanding Neoliberalism's intellectual history is the key to combating it because it reveals not only its hollow core but also the academic power relations by which with public funds it is today implanted in successive generations of students. Western universities both gave arise to Neoliberalism and continue to be its primary pushers.

What follows, I should warn you, is perhaps not the sort of thing that you might expect in a topical book like this. In four thousand words, not all of them an easy read, I am going to outline in part the intellectual history of Neoliberalism. The Neoliberalism story begins not in the last century but in the 1870s and not with political or economic ideas but with Newtonian physics. Nor did it initially arise out of political aspirations. Yet out of its distant, bizarre and unworldly origins it has via the United States Air Force (that is not a misprint) and university economics departments become the political ideology that today rules the UK and most of the world.

There is however now a major cause for hope. Over the last several years a radical but apolitical reform movement in economics has mushroomed, which if successful will destroy Neoliberalism's intellectual powerbase. My essay concludes with a brief account of this surprise development and of how those seeking a post-Neoliberal Labour Party might both give and receive help from this movement.

To understand Neoliberalism's pull one must first take on board the relation between ideology and science. One tends to think of ideology and science as polar opposites, but in our age the former is more often than not strategically linked to the latter. For over a century ideologies have

emerged from science or pursuits that claimed to be scientific, Marxism, Social Darwinism, modern forms of racism and now Neoliberalism being examples. We can expect more in the future, not because science is ideologically prone, but because before ideas can function ideologically they must appear credible and so ideologies are most likely to emerge from those domains whose authority is in the time and place the most uncontested. In our time in the West that domain is science. In the age of hereditary rule it was religion, hence the divine right of kings, whereas the ideology that spurred the American and French revolutions was grounded in political philosophy, it having usurped the authority of religion.

Before other disciplines concerned with human society had even begun to seriously put themselves forward as sciences, economics was touting itself as a science on a par or near par with physics. This conceit, which in the last century gradually pervaded most of the profession, originated in the 1870s with the founders of neoclassical economics. Today the neoclassical approach is often called “mainstream economics”, it being the only kind permitted in most university economics departments.

That a century after its invention neoclassical economics provided the intellectual rationale of an ideology, Neoliberalism, is pure accident. Its primary founders, Stanley Jevons and Leon Walras, were obsessed not with politics but with classical mechanics. They sought to associate themselves with the latter as the means of gaining recognition in the public eye as scientists. Although classical mechanics no longer figured as a major player on the frontiers of physics, in the popular imagination it was still king. Science was science, ran the common view, only to the extent that it mimicked the Newtonian model. So, wrote Jevons:

all branches and divisions of economic science must be pervaded by certain general principles [“the general principles of mechanics”]. It is to the investigation of such principles – to the tracing out of *the mechanics of self-interest and utility*, that this essay has been devoted. The establishment of such a theory is a necessary preliminary to any definite drafting of the superstructure of the aggregate science. [emphasis added] [Jevons 1970, p. 50]

This meant developing an economic model that had the same formal properties as Newton’s model of the universe. Whether or not economies and their markets have the same formal properties as Newton’s model was never an issue. Jevons, like Walras a few years later, had discovered the delusional and contagious delights of upside-down science. Whereas Newton, backed by a century of *empirical research*, had identified fundamental properties of the physical universe and then modelled them, Jevons and Walras set about *defining* a set of concepts that could be combined in a manner formally analogous to the physical relations modelled by classical mechanics. It is these ego-serving *a priori* concepts, which I will outline and which are hammered into the heads of undergraduates as if they were scientific truths, that today underpin Neoliberalism.

Mechanics is concerned with the *motions* of *bodies* and the *forces* that cause them. Its principles say that physical systems, consisting of bodies, forces and motions, tend toward *equilibrium*, this being when the sum of the *forces* acting on each body of the system is zero. Classical mechanics (unlike quantum mechanics) also constitutes a determinate model, meaning that if a change in one of the system’s variables is supposed, then the end state of the system can always be predicted. In the mid 19th century, before Darwin and modern physics, the property of determinacy was thought to be the hallmark of a truly scientific theory.

In Neoclassical economics, “bodies” translates “individuals” or “agents”, “motions” translates “exchange of goods”, “forces” translates “desires” or “preferences” which when summed become “supply and demand”, “mechanical equilibrium” becomes “market equilibrium”, this being when the difference between supply and demand is zero, and “physical systems” translates “markets”. But that is only the beginning of the neoclassical fabrication. To make the model determinate it was necessary to define the terms “exchange of goods”, “individuals” and “preferences”, and thereby “markets” in bizarre ways. All exchanges were said to magically take place at the prices

that equated demand and supply. There were no disjunctions from innovation and competition and no distortions from oligopoly and monopoly. This elimination of dynamics placed the focus entirely on when the market is in equilibrium, thereby ignoring actual market processes. Individuals were defined as atomistic, that is as having no social dimension, and within their isolated selves as being one-dimensional, meaning that they have only one criteria, preference satisfaction, for making decisions. And the preferences of these non-social beings were defined as unchanging, completely independent of life experiences, including consumer ones.

Walras surpassed Jevons in both influence and self-delusion. In his *Elements of Pure Economics* (1874-77) he proclaimed: "this pure theory of economics is a science which resembles the physico-mathematical sciences in every respect." [Walras 1984, p. 71] Despite the preposterousness of this assertion, Walras's theory and its modern offshoots do resemble physics in *one* respect, their mathematical formalism. Driven by physics envy, economics has increasingly shaped itself solely on the basis of its one resemblance to physics, with the consequence that much of its substance has vaporized in a formalist fog. If you doubt that this is really the situation, then here is how four winners of economics "Nobel Prize" see it:

". . . economics has become increasingly an arcane branch of mathematics rather than dealing with real economic problems"

Milton Friedman, 1999, p. 137

"Page after page of professional economic journals are filled with mathematical formulas [...] Year after year economic theorists continue to produce scores of mathematical models and to explore in great detail their formal properties; and the econometricians fit algebraic functions of all possible shapes to essentially the same sets of data"

Wassily Leontief, 1982, p. 104

"Today if you ask a mainstream economist a question about almost any aspect of economic life, the response will be: suppose we model that situation and see what happens...modern mainstream economics consists of little else but examples of this process"

Robert Solow, 1997, p. 43

"Existing economics is a theoretical [meaning mathematical] system which floats in the air and which bears little relation to what happens in the real world"

Ronald Coase, 1999, p. 2

How did economics' detachment from reality come about? And what is its tie-in with Neoliberalism and New Labour?

Nineteenth-century neoclassical economics is largely a late 20th century success story. It was not until the 1970s that in academia it became truly and ruthlessly hegemonic. The manner by which it won dominance helps explain its current political clout.

In the United States at the beginning of the last century, the emerging dominance of the neoclassical school was stalled by the institutionalists. Led by Thorstein Veblen, institutionalist economics analysed institutions as well as isolated and unchanging individuals, emphasised emergent social phenomena, argued that habit influenced economic choice more than rational calculation, rejected all forms of reductionism, and stressed the importance of knowledge in economic evolution. This approach steadily gained adherents in the years leading up to the first world war, and in 1917 one its leaders, John R. Commons, was elected president of the American Economics Association.

For several decades neoclassical and institutional economics profitably co-existed in many economics departments. The profit fell to humankind, because each approach was capable of analyzing and understanding aspects of economic systems that the other was not. This epistemological pluralism reflected the age. It directly paralleled the then emergent and much publicized new pluralism in physics, whereby quantum mechanics, premised on concepts that directly contradicted those of relativity theory, had been found capable of analyzing and understanding fundamental aspects of physical systems that the other was not.

But the Great Depression destabilized these institutional arrangements. Neither the neoclassicals nor the institutionalists had a plausible explanation or a cure. In stepped John Maynard Keynes. He offered a new theoretical interpretation of capitalist economies, which both explained their collapse and pointed to practical measures that would - without interfering with their general principles - get them going again and keep them functioning smoothly. Given the dire straits of capitalism and the growing fear of revolution, not even neoclassical economists dared for long to keep Keynes's theory from being given a try. When it was shown to work, that, at one level, ended the argument. Henceforth, in the basic management of the economy, all American presidents would be Keynesians, none daring to cut public expenditure when facing a recession. But at the theoretical level, which in the neoclassical tradition means theory that is axiom-led rather than empirically-led (otherwise their axioms would have been abandoned long ago), the argument had only just begun. In 1946 Keynes died and neoclassical economists began their counterinsurgency. This time, with the prodigality of the U.S. Department of Defense behind them, they would not be satisfied until most economics departments in the world had been cleansed of economists who voiced non-neoclassical ideas.

Keynes, a mathematician turned economist, had said some rude things about mathematical economists. Shocked by the way they abused mathematics, especially when they applied them in meaningless ways to unsuitable phenomena, he made no secret of his professional contempt for their empty pretentiousness. But these economists were soon to have their revenge. Led by Paul Samuelson in the US and John Hicks in the UK, they set about mathematicising Keynes's theory. Or, more accurately, a part of his theory. They left out all those bits that were inconsistent with the neoclassical axioms. Their end product was a formalised version of Keynes that is like a Henry Miller novel without sex and profanity. This bowdlerised version of Keynes, called 'Keynesianism', soon became standard fare in undergraduate courses. Even graduate students were discouraged from reading the primary text. With this cooptation of Keynes' reputation and with the real Keynes out of the way and Veblen and all the other free spirits forgotten, the road was now clear to establish a neoclassical tyranny. But it could never have happened on the scale that it did nor given rise to such ideological virulence (and New Labour) without the leadership and largess of the Pentagon.

Following the Second World War, the United States increasingly came to determine (one might say dictate) the shape of economics worldwide, while within the United States the sources of influence became concentrated and circumscribed to an absurd degree. This state of affairs, which persists to the present day, was engineered in significant part by the US Department of Defence, especially its Navy and Air Force. [Bernstein 2003] Beginning in the 1950s it lavishly funded university research in mathematical economics. Military planners believed that game theory and linear programming had potential use for national defence. And, although it now seems ridiculous, they held out the same hope for mathematical solutions of 'general equilibrium', the theoretical core of neoclassical economics. In 1954 Kenneth Arrow and Gerard Debreu achieved for this mathematical puzzle a solution of sorts, and it has been the central showpiece of academic economics ever since. Arrow's early research had been partly, in his words, 'carried on at the RAND Corporation, a project of the United States Air Force'. In the 1960s, official publications of the Department of Defense praised the Arrow-Debreu project for its 'modeling of conflict and cooperation whether if be [for] combat or procurement contracts or exchange of information among dispersed decision nodes.' But the really big event, the one that would make Neoliberalism the ideology of our time, came in 1965. That was the year that RAND, the research and development wing of the US Air Force, created a lavish fellowship program for

economics graduate students at the Universities of California, Harvard, Stanford, Yale, Chicago, Columbia and Princeton, and in addition provided postdoctoral funds for those who best fitted the mold.

These seven economics departments, along with that of MIT - an institution long regarded by many as a branch of the Pentagon - have subsequently come to dominate economics globally to an astonishing extent. They control the three most prestigious economics journals, in which papers by their staff and PhDs predominate. Of the over 800 economists employed by the World Bank, a majority have been trained at one of the Big Eight. The International Monetary Fund is similarly provided, as are the other highly ranked economics departments in the US and in some cases in other countries. A glance through the 2003 edition of Penguin's *Dictionary of Economics* illustrates the accentuated continuation of this tiny all-powerful closed shop engineered by the United States Air Force. The dictionary has entries for 29 living economists. Of these, 26 - 89.7 per cent - are from the US, or have had all or the most important part of their careers there. Of the 26, 100 per cent have either taught at or received their PhD from one of the Big Eight.

Four years after the launch of the RAND programme, economics pulled off one of the greatest public relations coups of all time. The Central Bank of Sweden had decided to mark its tercentenary by creating an award for economics. Rather than naming it in memory of Adam Smith or some other ancestral economist, it named it "The Bank of Sweden Prize in Economics Sciences in Memory of Alfred Nobel", shrewdly anticipating that this unwieldy title would be shortened by journalists to the "Nobel Prize in Economics". To further the deception, the bank adopted nomination and selection procedures identical to those of the real Nobel prizes. It even arranged for it to be awarded at the same time as the Nobel prizes. Soon even people who know better couldn't help but refer to the Bank of Sweden Prize as a "Nobel Prize". The fraud has been so successful that not only is the general public deceived, but also, it is my impression, many economists honestly believe that what they call the "Nobel Prize for Economics" is a Nobel Prize. Given human nature, it is not surprising that winners of the Bank of Sweden Prize have been disinclined to discourage this false belief. But in some cases the degree of their disinclination is noteworthy. For example the science historian Yves Gingras [2002] writes:

Paul Samuelson (1970 winner) wrote about his 'Nobel coronation' – not his 'Bank of Sweden Coronation' – and filled his talk with references to Einstein (4 times) Bohr (2 times) and eight other winners of the (real) physics Nobel prize (not to mention, of course, Newton) plus a few other names as if he were part of this family.

The convergence of the effects of the RAND programme and the "Nobel Prize" scam with economics' "genetic" weakness, dating from Jevons and Walras, for self-delusion about its scientific status, pushed economics over the precipice. Within a generation the "dismal science" became the autistic science. Its storylines increasingly bore scant relevance to economic reality. More and more the pages of economics journals were given over to mathematical symbols that, unlike those of real science journals, have no empirical, real-world referents. Towing the empty formalist line became virtually the only path to academic employment. Out of this enforced fantasy world emerged Neoliberalism in the real-life political world. It was another of those public relations hat-tricks at which the economics profession is so shamelessly peerless. Given that it was impossible to escape its autism without de-formalizing and thereby losing its treasured illusion that economists are kissing-cousins of physicists, *why not demand that the real world change so as to conform to the imaginary world of neoclassical economics*. This is how Neoliberalism came and continues to be.

In the neoclassical make-believe world everything, like in a fairytale, works wondrously well. There is never any unemployment; markets of all kinds always clear instantly; everyone gets exactly what they deserve; market outcomes are invariably "optimal"; everyone maximizes their potential; and all citizens possess a crystal ball that infallibly foresees the future. In this axiomatic paradise (without messy things like social beings, institutions, history, culture, ethics, religion, human development and the indeterminacy that always accompanies freedom) there is no

government ownership, no regulation, no corporate accountability, no building codes, no health and safety laws, no collective bargaining rights, no food standards, no controls on oligopoly and monopoly, no welfare, no public health departments, no NHS, etc., etc.. Instead there are just “markets”. Markets, markets, markets. For those who take the model literally, the solution to all human problems is to make the real world more like the neoclassical make-believe world. “All you need are markets.” If you can’t yet get rid of something that is not a market, then make it look like a market. That is the central idea of Neoliberalism. Simpleminded? Of course. Deluded? Totally. But as Blair’s government has shown, it can be applied to virtually everything. There is however for the Labour Party a way out of this ideological prison.

The problem is not neoclassical economics itself, but its monopoly position. Economic reality, like the natural world, is extremely complex, and so understanding it requires examining it from numerous points of view. Neoclassical economics is but one of those points, and one with a narrow sightline. When neoclassical analysis is offered and accepted not as a partial truth but as the whole truth, all the other economic knowledge that could be gained and that should be part of political debate and decision making is left out. Instead the political process takes place on the basis of a small fraction of the economic knowledge potentially available. *It is this enforced ignorance in matters economic that is the primary basis of Neoliberalism.*

In the summer of 2000 some economics students in France started a rebellion against this knowledge censorship as exemplified in their curriculum. In a petition they characterized economics as an “autistic science” and proclaimed their desire “to escape from imaginary worlds”. The state of affairs that their petition describes characterizes the teaching of economics in most of the world’s universities, including Britain’s, today. Its first paragraph is worth quoting because, although intended to be apolitical, it identifies the fountainhead of Neoliberalism.

Most of us have chosen to study economics so as to acquire a deep understanding of the economic phenomena with which the citizens of today are confronted. But the teaching that is offered, that is to say for the most part neoclassical theory or approaches derived from it, does not generally answer this expectation. Indeed, even when the theory legitimately detaches itself from contingencies in the first instance, it rarely carries out the necessary return to the facts. The empirical side (historical facts, functioning of institutions, study of the behaviors and strategies of the agents . . .) is almost nonexistent. Furthermore, this gap in the teaching, this disregard for concrete realities, poses an enormous problem for those who would like to render themselves useful to economic and social actors.

They asked instead for:

a pluralism of approaches adapted to the complexity of the objects and to the uncertainty surrounding most of the big questions in economics.

Although the French students’ protest was only national in scope, similar student petitions soon appeared in the UK, the US and Italy. More significant, the French initiative was the spark that ignited what has become known as the Post-Autistic Economics (PAE) a broadly international movement composed mainly of professional economists, now numbering in the thousands.¹ The movement seeks to change fundamentally the way *all* economics is practised, by introducing a pluralism like one finds in the natural sciences. This both removes the intellectual legitimacy of Neoliberalism and carries immediate and radical everyday implications for policy makers and politicians. Let me briefly explain.

Despite all the hype about economics being a hard science like physics, it has always in significant part been an ideological pursuit shaped by true-believer mentality. In particular, each of economics’ many “schools”, not just the neoclassical, has tended to present its partial view of

economic reality as if it were the whole view or at least the only one that needs knowing. It is like if in physics, micro physicists tried to stop the teaching and application of general relativity with its radically different, indeed contrary, conceptual system, and macro physicists in turn tried to bury quantum mechanics. Physicists don't do that, partly because they are not dealing with the social world, but also because they appreciate that knowledge accumulates by investigating reality from more than one conceptual point of view. [Boyle, 1983] Nearly all economists, however, have tended to be "paradigm warriors", seeking to establish their school's limited viewpoint as the only legitimate one and as being THE economic truth. Inevitably this leads to political struggles and media positioning, like the ones this essay has described, within and outside the institutions in which economics is taught and applied. Occasionally, as in the Soviet Union and in much of the developed world today, one school wins out over all the rest, with the consequence that open and informed discussion of economic issues is closed down and political decision comes to be dictated by dogmatic slogans broadcast from an inner sanctum.

The Post-Autistic Economics movement offers a way out of this impasse and one that people seeking to liberate the Labour Party from Tony Blair's Neoliberalism should grab hold of immediately. PAE is apolitical and concerns itself mainly with a matter of epistemology. That may sound like a singularly inadequate grounding for a political initiative. But remember that, according to my analysis, the curtailment of knowledge is, as was the case with Soviet Marxism, the ultimate powerbase of Neoliberalism.

PAE seeks to break down the our-and-only-our approach to economics that traditionally has characterised the discipline and currently underwrites Neoliberalism. It aims instead to bring about in university economics, in both teaching and research, an interacting and cooperative pluralism of approaches that, like the French students called for, is adapted to the complexity and uncertainty of economic reality and parallels long-established practices in modern physics and biology. Instead of aiming to indoctrinate students and the general public in a closed system of belief, it would bring to bear on economic issues a whole range of approaches, including Neoclassical, Institutional, Post-Keynesian, Intersubjectivist, Austrian, Marxian, Anthropological, Ecological, Behaviouralist, Feminist, Systems Analysis and Complexity Theory. Each of these approaches – and this is not an exhaustive list – reveals things about the economy that the others do not. With the spread of this knowledge base, the ignorance upon which Neoliberalism's hegemony depends would be voided.

Labour Party supporters can hook into this academic reform movement by demanding a corresponding analytical pluralism in the formation of Labour Party policies. An intra-party climate could and should be created wherein intellectual standards are such that attempts to fashion and justify policy on the basis of the slogans or the one-dimensional thought processes of Neoliberalism, *or any other ideology*, are, as a matter of course, ridiculed. To this end, consultation with a diverse range of economists should routinely be sought, so that decisions once again are arrived at through open political processes, rather than by de facto academic dictates, and are broadly knowledge-based rather than produced by the tunnel vision of a quasi religion.

Such intra-party reform, however, will not eliminate the primary source of the malaise. After Blair a dilution of the Labour Party's Neoliberalism may be possible, but without more fundamental reform, in the long-run the cause is lost. So long as the country's university economics departments are allowed to be operated as political propaganda centres and one-paradigm closed-shops, successive generations of citizens, including journalists and politicians, will be indoctrinated in the Neoclassical-Neoliberal creed. This situation is not compatible with normal ideas of democracy. Alas, I do not sense within Labour circles a willingness to confront the problem. But not until it is can the madness of Neoliberalism, like Soviet Marxism, be laid to rest.

Note

The *post-autistic economics review* now has over eight thousand subscribers, the majority of whom are professional economists.

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