

INTRODUCTION

In the academy, economists are among the few who aspire to tell society how it should manage. They rarely speak with a single voice, but that does not diminish their confidence. Society treats them with bafflement and respect. What do they really know and how do they know it? Where does their authority come from and how far is it justified? Economic theorizing may be speculative, but its impact is powerful and real. Since the 1970s, it has been associated with a large historical trend, the ‘market turn’ of our title: the rising ascendancy of market liberalism, a political and social movement that (like economics) holds up buying and selling as the norm for human relations and for social organization. How good a warrant did economics provide for the ‘market turn’? And is it an improvement on what went on before?

JUST WORLD THEORY

On the evening of 10 December 1969, in the grand setting of Stockholm’s Concert Hall, the Dutch economist Jan Tinbergen took his place behind the year’s Nobel laureates in physics, chemistry, medicine, and literature to receive the very first ‘Prize in Economic Science in Memory of Alfred Nobel’. The other Nobel Prizes had all been given every year since 1901. Alfred Nobel himself, a prolific inventor and businessman of genius, would not have created a prize for economics. He wrote in a letter that he ‘hated business with all [his] heart’, and he considered himself a social democrat.¹ In the ceremony, the economist Tinbergen was made to stand apart from the other recipients, and was the last to receive his award, after the laureate in literature Samuel Beckett, the Irish avant-garde dramatist, novelist, and poet.

1. Ahlqvist et al., ‘Falkst Pris i Nobels Namn’ [‘False Prize in Nobel’s Name’] (2001); Nobel, ‘Alfred Bernhard Nobel’ (2001), 260.

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Now economics is difficult to master, but Beckett is difficult too. Is economics more like physics or literature? Most Nobel economists would dismiss this question, but let it linger for now.

The validity of economics would matter less if it were not used constantly to implement courses of social action in the purported interests of ‘efficiency’, often without specifying clearly what the benefits might be and for whom. These policies affect the livelihood and well-being of individuals and nations, as well as large financial and business interests. The arguments of economists are supposed to have a special authority, quite different from the pleadings of other parties: they are the counsel of reason, disinterested and objective. They stand apart from the claims of sectional and private self-interest; and also from those that emanate from metaphysical sources like religious sanction or the people’s will. There is an irony here, which economists rarely acknowledge: they consider private self-interest to be the prime motivator, but not of their own advice.

Economics is a cluster of doctrines, not always consistent with each other, which mean to provide a simplified but essentially correct model of social reality. Its claim to authority is twofold: that the theory is compelling in itself; and that it is confirmed by observation or consequences. Theory comes first: its simplified accounts of reality have an elegance, even beauty, that arises from their being at odds with everyday intuitions, while at the same time bringing order to the confusion of experience. Economics is not easy to master, but is easy to believe. Since the 1980s, economic methodologists (scholars who appraise the methods and purpose of economics) have largely been content to leave it at that and to focus on the internal validity of theory, the various ways in which it is meant to hang together and work.² The main reason for this focus is that a good deal of economic theory is not borne out by either experience or results.

‘The great tragedy of science,’ the Victorian biologist Thomas Huxley said in 1870, ‘is the slaying of a beautiful hypothesis by an ugly fact.’ At the risk of being unfashionable, we part ways with present-day methodologists and go back to simpler times, in which theory, to be considered valid, had to accord with experienced reality. Confronting theory with evidence is not simple or easy, and we do not mean to dismiss the many writers who point this out. One of us has tried it himself, confronting George Akerlof’s economic the-

2. Kincaid, *Oxford Handbook of the Philosophy of Economics* (2009); Mäki, *Philosophy of Economics* (2012).

ory of ‘the market for lemons’ (recognized by a Nobel Prize in 2001) with the facts of the historical used-car market, the subject of Akerlof’s article.³ A key premise was found to be wrong, the theory as stated was not genuinely testable, and some of its predictions were not borne out. Our reason for insisting on reality is that theory is not only about how to understand the world (epistemology), or how the world is constituted (ontology)—it is also about how life should be conducted, that is, theory is ‘normative.’ So much hangs on the benefits and sufferings that economics has the power to inflict that we have to insist on asking, ‘Is it true and does it work?’⁴ Other sources of authority can do without that kind of justification: commitment and inner belief have no need for external confirmation. Authority is often resistant to argument and evidence. Officials, priests, prophets, and leaders do not always submit to the test of consequences. But the Enlightenment in Europe and America ordained a quest for truth by means of critical argument and evidence. The sciences abide by this method, and economics, when it aspires to the same esteem, is presumed to do so as well.

What are the ‘norms’ that economics lays down? They start from the laudable principle of maximizing well-being, or ‘welfare.’ Welfare, however, is defined merely as what individuals want, and only that. That is the principle of ‘methodological individualism.’ A social improvement takes place when somebody can get more of what they want, without depriving anybody else. This is a ‘Pareto improvement’ (after Vilfredo Pareto, the Italian economist). When there is no slack, nobody can gain without somebody else losing. We get there by means of exchange: people sell what they want less of (including their labour), and buy what they want more of. Everybody has something to sell. If everyone trades freely, the system achieves a benign equilibrium, which is ‘Pareto efficient.’ This was supposedly anticipated in the eighteenth century by Adam Smith as being like the work of an ‘invisible hand.’⁵

In such a system, everyone gets the value of what they can sell, and what they get is what they are due. This imaginary marketplace belongs with a larger set of doctrines, ‘Just World Theories.’ The concept comes from social psychology, but is used differently here.⁶ The idea is simple: a Just World Theory says that everyone gets what he deserves. If the Spanish Inquisition burned heretics, that was only what they deserved. If peasants were starved

3. Akerlof, ‘The Market for Lemons’ (1970); Offer, ‘The Markup for Lemons’ (2007).

4. As per Blaug, ‘Why I Am Not a Constructivist’ (1994), 118–119.

5. Offer, ‘Self-Interest, Sympathy, and the Invisible Hand’ (2012).

6. Rubin, ‘Who Believes in a Just World?’ (1975); Lerner, *Belief in a Just World* (1980).

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and exiled in Soviet Russia, they got what they deserved. Likewise the Nazis and the Jews. Just World Theories are ubiquitous; they are political, religious, ethnic, gendered, and cultural. They justify the infliction of pain.

Market liberalism is also a 'Just World Theory' of this kind. Milton Friedman, Nobel Prize winner (henceforth, NPW) in 1976 wrote, 'The ethical principle that would directly justify the distribution of income in a free market society is, "To each according to what he and the instruments he owns produces."⁷ In other words, everyone gets what they deserve. The initial endowment of property and ability, and the consequent market outcomes, are both (as Friedman says) ethically deserved. The free market economy is not only efficient, it is also just, a natural order which it is futile to resist. The norm of individual desert justifies the inequalities and hardships of market society. These are the laissez-faire doctrines of nineteenth-century classical liberalism. Not every economist would accept their ethical value, but the assumption that marginal revenue equals marginal product is pervasive in economic modelling.

Market liberalism is radical. If you genuinely believe that the pursuit of individual self-interest maximizes collective welfare, then collective action in any form is likely to be harmful and to reduce welfare. As we shall see, this doctrine is actually the point of departure for a good deal of policy-related economic analysis since the 1970s. It is deeply counter-intuitive, but can it be true? Here is a role for the Nobel Prize, to provide disinterested scientific validation. Self-interest/market-clearing 'invisible hand' doctrines are inconsistent with most efforts at organized social betterment, and especially with social democracy.

SOCIAL DEMOCRACY AGAINST ECONOMIC DOCTRINE

In the last third of the nineteenth century, trade unions and social democratic parties arose to resist this presumption.⁸ Their movements first entered government in Australia before World War I, and in northwestern Europe after its conclusion. Social Democracy (as we shall call it) had different priorities from those of the economics of its day. In economic theory, action is driven by the preferences of the autonomous individual. In Social Democracy, the basic impulse was not gratification but obligation, the basic unit not the individual but the group, family, class, and nation. The prime objective

7. Friedman, *Capitalism and Freedom* (1962), 161–162.

8. Deane, 'Scope and Method of Economic Science' (1983).

was not acquisitive, but to achieve security, and more specifically, to cope with life-cycle contingencies. In contrast to the personal cravings that motivate action in economic theory, Social Democracy was driven by the social problem of how to cope with dependency.

In the course of the life cycle, every person goes through periods when they cannot provide for themselves. Early motherhood, infancy and childhood, education, illness, unemployment, disability, and old age are all costly and time-consuming.⁹ In conditions of dependency, there is nothing to sell except a claim on humanity, no product to bargain with, no ‘two feet’ to stand on, and little foresight or capacity to calculate. The ‘welfare’ problem is how to transfer resources from producers to dependents over the life cycle. In the inter-war years, unemployment threatened almost every manual-working household with losing the very means of existence.

The difference between Social Democracy and economic market doctrines is easy to draw. It is about how to deal with uncertainty. For each individual, the timing and extent of dependency is uncertain. In the aggregate, however, for society as a whole, the magnitude of dependency is known, and its future extent can be predicted actuarially. In Social Democracy, mutual support takes place now, as lateral transfers from one generation to another, from producers to dependents, paid for by taxes. In such a system of social insurance, the risks of dependency are pooled. How much is transferred is decided in a political equilibrium between taxpayers and recipients, but, over time, everyone contributes and everyone benefits.¹⁰ In contrast to Friedman, in Social Democracy (also a Just World Theory), everyone deserves what they get. It extends an entitlement to the sources of well-being to the whole of the nation-state. In Sweden, Social Democracy was designated ‘The People’s Home.’ In the words of its leader,

The basis of the home is commonality and mutuality. A good home is not aware of any privileged or slighted, no darlings and no stepchildren. You see no one despise the other, no one who tries to gain advantage of others. . . . In the good home you find equality, compassion, cooperation, helpfulness.¹¹

Social Democracy was more evenly gendered, with a focus not on the marketplace, but on family and home. It was not until thirty years after

9. Offer, ‘Economy of Obligation’ (2012).

10. Hills, *Good Times, Bad Times* (2014).

11. Per Albin Hansson, Swedish Parliament, *Andra Kammarrens Protokoll* Nr 14–19 [Second Chamber Debates], no. 3, 28 January 1928, 11.

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its foundation that a woman, Elinor Ostrom, first won the Nobel Prize in economics—the only one so far.

In economics, in contrast, the risk is borne by every individual. Each person's problem is how to transfer financial claims safely over time, from now, when premiums are paid or savings banked, to the future, when dependency might occur. Security is a commodity like any other, purchased in financial markets as insurance and savings, each person according to a sense of how much he or she can afford. Risks are pooled by insurance companies and banks. Individuals rely for security on commercial contracts.

Apart from these different takes on the future, there is overlap between the two doctrines: for production, both rely on private ownership and management; on distribution through markets, more or less competitive; and on government for a set of public and collective goods like defence and roads.

Late-Victorian economic doctrine answered the need for an intellectual response to the workers' challenge, to trade unions, to socialism, to the land reform movement, and to Social Democracy.¹² Liberal economists upheld the existing property order and its inequalities. In Western Europe, North America and Australasia, Social Democracy eventually prevailed over fascism and communism, established welfare states, safeguarded the structures of capitalism, and dominated policy during the first three post-war decades. It sustained economic growth and distributed it more equally. To do this, it had to challenge the assumptions of neoclassical economics, and sometimes to reject them.

In contrast to the competitive free-for-all of orthodox economics, Social Democratic parties in post-war Europe (and in the English-speaking countries) defined a cluster of collective aspirations:

- Collective insurance against life-cycle periods of dependency, regulated and administered by government and paid for through progressive taxation.
- Good-quality affordable housing, by means of rent control, new construction, mortgage subsidies, and public or collective ownership.
- Secondary and higher education, land use planning, scientific research, culture, sports, roads and railways.

12. Deane, 'Scope and Method of Economic Science' (1983); Mirowski, *Effortless Economy of Science* (2004), chs. 13–14; Gaffney and Harrison, *Corruption of Economics* (1994).

- A mixed economy with extensive public services, some nationalized firms, but leaving private ownership to manage production and distribution.
- A special concern for disadvantaged groups.¹³

The United States also went along with a good deal of this programme, and if it failed to provide universal healthcare entitlement, it did provide one for the old and the indigent.

All this seemed to be expensive: it was administered by governments and paid for out of taxes, so government expenditure in northwestern Europe rose to between 40 and 50 percent of GDP by the end of the 1970s. But voters approved: for taxpayers in the aggregate, this spending provided more benefits than costs.¹⁴ It shifted buying power from times of plenty to times of need. Earners supported those temporarily dependent: mothers, children, students, the unemployed, disabled, sick, and aged. In their turn, producers could anticipate support when they entered dependency in the course of the life cycle. Taxation was progressive, so those with more also gave more, and took out proportionately less. Where benefits were high and universal (that is, provided equally for all), those with lower incomes benefited proportionately more.¹⁵ Inequality in advanced countries fell to the lowest levels since the Middle Ages.

COMPETING VISIONS

It is not far-fetched to regard World War II as a consequence of the policy failures of inter-war economic orthodoxy.¹⁶ In 1944, with war still raging, two publications set out different visions of the future by two economists who received the Nobel Prize on the same day thirty years later. One was *The Postwar Programme of Swedish Labour*, published by the ruling Social Democratic Party in Sweden, and co-written by the economist Gunnar Myrdal (his portrait is on our jacket, with his Nobel Peace Prize-winning wife, Alva).¹⁷ The other was *The Road to Serfdom*, published in Britain by Friedrich von Hayek.¹⁸

13. For Norway and Sweden, Sejersted, *Age of Social Democracy* (2011).

14. Lindert, *Growing Public* (2004), II; Hills, *Good Times, Bad Times* (2015).

15. Rothstein and Steinmo, 'Social Democracy in Crisis?' (2013), 99.

16. Chapter 3, below.

17. Landsorganisationen, *Postwar Programme of Swedish Labour* (1946, originally published 1944).

18. Hayek, *Road to Serfdom* (1944).

Swedish Social Democracy had come to power in 1932 and kept Sweden out of the war.¹⁹ Its 1944 programme is a high point of Social Democratic aspiration. It condemned inter-war economics for tolerating unemployment and poverty; the war had mobilized productive resources even in neutral Sweden, which might serve as a model for peace. A detailed list of twenty-seven challenges fell under three headings: ‘Full Employment’ (as the main guarantee of security), and ‘Fair Distribution and Higher Living Standards’ (implying redistribution from capital to labour). A third item, ‘Greater Productive Efficiency and Increased Industrial Democracy’, set out the target of economic growth. This was the most distinctive feature of Swedish Social Democracy: it was Gunnar Myrdal’s innovation to argue that security and equity for all were also productive, that there was no contradiction between efficiency and equity.²⁰ The fervour for improvement had a dark side, a certain lack of sympathy for those who might be incapable of work due to mental or social incapacity.²¹ Overall, however, it was an articulate, sober and democratic challenge to economic orthodoxy.²²

For Hayek, an Austrian professor at the London School of Economics, Social Democracy was the first stop on *The Road to Serfdom*. It could open the way to tyranny. The book belies its austere reputation: Hayek conceded some need for social insurance and other government interventions. If he was uneasy about the ‘social’ aspect of Social Democracy, he was also wary of the ‘democratic’ side. Freedom as the opposite of tyranny did not entail democracy. It had to be protected from majorities.²³ ‘I would prefer temporarily to sacrifice . . . democracy,’ he said in an interview in Chile in 1981, ‘before having to do without freedom.’²⁴

Serfdom was an immediate hit in Britain, and even more so in the United States, where it was published by the University of Chicago Press.²⁵ It gained enormous circulation, over a million copies in a *Reader’s Digest* abridged edition, and a cartoon version in the popular weekly magazine *Look*, also distributed gratis by General Motors and General Electric. The cartoons left out the section on social insurance. The book was quickly translated into Swedish as

19. Berman, *The Social Democratic Moment* (1998).

20. Andersson, *Between Growth and Security* (2006), ch. 2.

21. Andersson, *ibid.*, ch. 3; Myrdal, *Nation and Family* (1941), ch. 6 (revision of Alva and Gunnar Myrdal, *Kris i Befolkningsfrågan* [1934]).

22. Landsorganisationen, *Postwar Programme of Swedish Labour* (1946), 3–5.

23. Burgin, *Great Persuasion* (2012), 116–120, esp. 119.

24. Caldwell and Montes, ‘Friedrich Hayek and His Visits to Chile’ (2014), 47.

25. Söderberg et al., ‘Hayek in Citations’ (2013), 66–67.

well, where it became a focal point for resistance to Social Democracy, whose electoral hold on power was never secure.²⁶ Hayek's slippery slope view of Social Democracy has since been grotesquely falsified: no societies on earth are further from serfdom than the Nordic welfare states. Mixed economies with high levels of government intervention have reliably sustained political and economic freedoms for many decades, while laissez-faire and totalitarian regimes have not.²⁷ But then Hayek consistently dismissed any scientific standing for economics, up to and including his Nobel Prize Lecture.

Hayek, who had been marginalized as an economist by John Maynard Keynes in Britain, was now lionized in the United States. He transformed his literary and financial success into a political project. Business foundations paid for an international gathering of economists, journalists, and businessmen at the Mont Pèlerin Hotel in Switzerland in April 1947. After several days of deliberation, the participants launched the Mont Pèlerin Society. From that year onwards, the regular meetings of the society, funded by American foundations at comfortable venues, became the intellectual focus of resistance to Social Democracy.²⁸ For about two decades, the society was controlled by Hayek, who vetted all new members. The first meeting assembled some of the leading anti-labour intellectuals in Europe and America, including several future winners of the Nobel Prize: Hayek himself, Milton Friedman, George Stigler, Bertil Ohlin, and Maurice Allais (though the last two declined to join).²⁹ Another participant, the philosopher Karl Popper, author of *The Open Society and its Enemies* (1945), advocated opening society meetings to external critics, but Hayek would not agree.³⁰ 'Freedom' was not the same as an open mind.

Many years later, the course of the society was described by Milton Friedman (NPW, 1976) to Max Hartwell, its official historian,

The threat to a free society that we envisaged at the founding meeting of the Mont Pèlerin Society is very different from the threat to a free society that has developed over the intervening period. Our initial fear was of central planning and extensive nationalization. The developing threat has

26. Lewin, *Planbushällningsdebatten* (1967), 267–273.

27. Alves and Meadowcroft, 'Hayek's Slippery Slope' (2014).

28. Mont Pèlerin Society Papers, Hoover Institution Archives, Stanford University, and Liberalearchief, Ghent; Hartwell, *History of the Mont Pèlerin Society* (1995); Walpen, *Die offenen Feinde und ihre Gesellschaft* (2004); Mirowski and Plehwe, *The Road from Mont Pèlerin* (2009); Burgin, *The Great Persuasion* (2012), ch. 3.

29. Allais did so later.

30. Burgin, *The Great Persuasion* (2012), 95.

been via the welfare state and redistribution. Unfortunately, the threat did not disappear but simply changed its character. Nonetheless, I believe it is very important to point out this change in character in interpreting the so-called re-emergence of liberalism. In the words of a song from an ILGWU musical of many years ago, 'Pins and Needles', 'One step forward, two steps backward, that is the way we progress.'³¹

This last sentence is rich in deliberate irony (this is also the title of a pamphlet by Lenin).³² The musical came out of the New York Jewish immigrant culture which Friedman also came from; it was written and produced by members of the International Ladies Garment Workers Union with a cast of cutters, basters, and sewing machine operators, and played on Broadway more than a thousand times from 1937 to 1940. It was also performed at Franklin D. Roosevelt's White House. When Friedman's letter was written in 1985, the quotation had been sadly borne out, but it is also a humorous reference to the Mont Pèlerin Society's own long game of gradualism, which eventually achieved remarkable success, not least in capturing the prestige of the Nobel Prizes awarded to eight of its members.

THEORY AND PERFORMANCE

The Nobel Prize testifies to the formidable stock of theory underpinning economics. To be sure, only a minority of economists joined the Mont Pèlerin Society or supported its goals, but some of the most prominent among them were Nobel Prize winners. The ascendancy of market liberalism began around the same time as the creation of the prize. We could tell it this way: In December 1967, Milton Friedman delivered the American Economic Association's presidential address.³³ The message was incendiary: the Keynesian economic policies associated with Social Democracy no longer kept either unemployment or inflation at bay. For the next seven years, Friedman became among the most cited economists of all, temporarily overtaking Adam Smith, the permanent citation leader.³⁴ That speech signalled a move in the historical chess-game between the two doctrines: On the one hand, Social Democracy, a political movement which set out to reduce insecurities

31. Friedman to Max Hartwell, 10 July 1985, Hoover Institution, Friedman Papers, 200–10.

32. Lenin, *One Step Forward, Two Steps Back* (1904/1947).

33. Friedman, 'The Role of Monetary Policy' (1968).

34. See figure 6.9, below. Kenneth Arrow also overtook Smith for a few years.

and inequalities for most of the population, providing healthcare, education, and protection from life-cycle contingencies by means of progressive taxation. On the other, a neoliberal economic doctrine (neoliberal in doctrine, market-liberal as a wider social movement), committed to undoing these reforms. Over following decades, both neoliberalism (doctrine), and market liberalism (movement) have done much to wrong-side the post-war welfare states, while prosperity and prospects for most people in Western societies have levelled off or fallen. During those same decades, however, and partly as a result of the globalization advocated by neoliberals, prosperity worldwide has actually increased. China, India, and Brazil have penetrated Western markets without submitting to market-liberal dictation, following the earlier lead of Japan, Taiwan, South Korea, and Singapore.³⁵

Social Democracy did not have the same intellectual horsepower behind it as economics.³⁶ Of NPWs, only Gunnar Myrdal (NPW, 1974) can be regarded as a direct advocate (although around half the NPWs in our period inclined towards Social Democracy, and a higher proportion among economists in general).³⁷ There is not a great deal of doctrine, but the practical achievement is no less formidable than that of market liberalism. As figure I.1 shows, in the leading OECD countries, about 30 percent of national income is devoted to social insurance and social policy, and allocated by central government (bottom curve). In the period 1990–2008, the proportion was still increasing. The element of social insurance was more popular among voters than redistribution.³⁸ The United States regularly elects conservatives to high office, but the attempt to privatize even a small segment of social security has failed so far. The reason is that, for social insurance, the Social Democratic method is far more efficient.³⁹ But that does not make it secure. Social Democracy clashes directly with market liberalism in its view of labour. For market liberalism, work is a commodity like any other, to be bought and sold at will. ‘At will’ is the current doctrine of employment in the United States, which allows workers to be fired at any time with no reasons given (unless protected by contract). For most people, this is a source

35. Alpert, *The Age of Oversupply* (2013); Lin, *Demystifying the Chinese Economy* (2011); Wade, *Governing the Market* (1990); and chapter 11, below.

36. Myrdal, *Kris i Befolkningsfrågan* (1934); Crosland, *Future of Socialism* (1936); Korpi and Palme, ‘The Paradox of Redistribution’ (1988); Esping-Andersson, *Three Worlds of Welfare Capitalism* (1990); Rothstein, *Just Institutions Matter* (1998); Barr, *Economics of the Welfare State* (2012).

37. Below, chapter 5, figure 5.2.

38. Taylor-Gooby, *Double Crisis of the Welfare State* (2013).

39. Offer, ‘Economy of Obligation’ (2012).

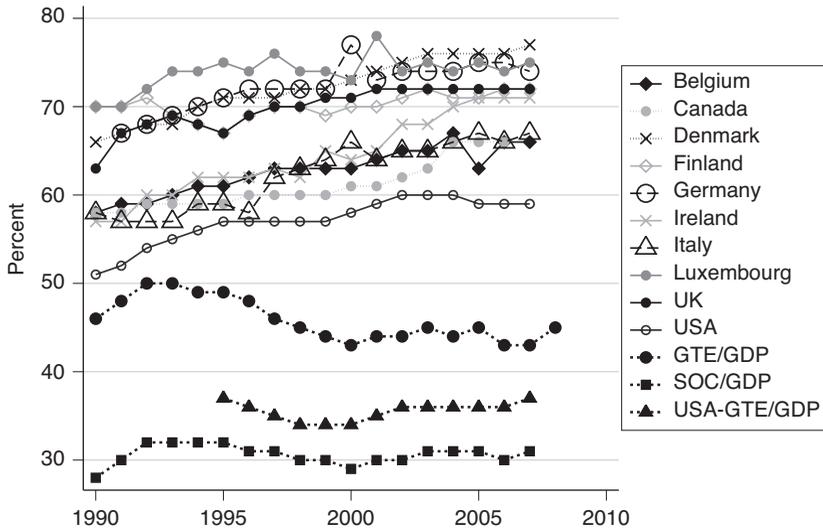


Figure I.1. Social expenditure as percentage of government expenditure and government expenditure as percentage of GDP, 1990–2008.

Source: OECD, ‘General Government Spending by Destination’ (2014).

Note: GTE denotes government total expenditure; SOC is social expenditure (health, education, and social insurance/welfare).

of intense insecurity, since household obligations (like mortgage payments and children’s education) are locked far into the future, and work sustains a sense of dignity and purpose. In the United States at least, healthcare provision is commonly linked to employment. ‘Labour market flexibility’ is high on the market liberal agenda in Europe today, seeking to converge with the ‘at-will’ employment doctrine of the United States.

In 2008, the financial markets had to be rescued by governments from their follies; this was a role for welfare which neither Social Democrats nor market liberals had ever envisaged. There was little show of gratitude. Instead, market liberals took the resulting budget deficits as a cue to redouble their attacks on the welfare state, like a drowning man who escapes with his life, leaving the rescuer to drown instead. That story continues beyond this book.

Our subject is not the achievement of individual NPWs, or of Nobel economics as a whole. There are several studies in that vein.⁴⁰ It is the worldly

40. Grüske, *Die Nobelpreisträger der ökonomischen Wissenschaft* (1994); McCarty, *The Nobel Laureates* (2001); Vane and Mulhearn, *The Nobel Memorial Laureates in Economics* (2006); Breit, *Lives of the Laureates* (2009); Horn, *Roads to Wisdom* (2009); Karier, *Intellectual Capital* (2010); Klein et al., ‘Ideological Profiles of the Nobel Laureates’ (2013); Ghosh, ‘Beautiful Minds’ (2015).

power of economics, how and how much a body of doctrine has succeeded in motivating policy. These doctrines are viewed from the outside, as users would see them, not their originators. Those who deploy these doctrines in policy-making are rarely versed in their mysteries. Likewise for those affected, whose viewpoint is the one we adopt here.

GIST OF THE BOOK

Economics works by constructing simple models of economic behaviour which are then mustered to bear on policy. To combine the premises of individual self-seeking and social harmony was an ambitious undertaking, which has to be judged as a qualified failure both analytically and empirically. Disregarding these weaknesses, Chicago economists argued that profit-making firms should replace the welfare state, in line with the objectives of the New Right in politics. For a discipline that celebrates rationality, the Nobel Prize is an anomaly, a form of magic, a one-sided transfer handed down as a gift. Ironically, this magic is transformed into authority for what counts as science. Natural scientists think that theory has to be confronted with evidence. In economics, however, in response to empirical failure, methodologists have waived this requirement. But many practitioners have drawn the opposite conclusion, and turned their backs on the core doctrines: publications of abstract theory peaked in the early 1980s, and there is a new 'empirical turn', of laboratory, field, and natural experiments, with little reference to market-clearing theory. Several Nobel Prize winners have also queried core doctrines.

The Nobel Prize in economics came out of the strife between Social Democracy and business elites in Sweden, a local instance of class conflict in the West more broadly. Sweden, which had been neutral in World War I, and with a rich endowment of abilities and natural resources, made an easy transition to Social Democracy between the wars. In most of Europe, the challenge of debt obligations culminated in domestic and international crises. After 1945, the ruling Social Democratic Party in Sweden prioritized housing and full employment, a policy which was resisted by the central bank on grounds of price stability. The government stifled the bank, which looked for ways to reassert itself. The Nobel Prize in economics was endowed in 1968 by the central bank at the pinnacle of Social Democratic success.

Does economics have a political bias? We examine this by means of NPW citation counts, and opinion surveys within the discipline. The custodians

of the prize (a small group of Swedish economists) strove to maintain a mechanical balance between the left and the right, but well to the right of the balance of opinion within the discipline as a whole, which inclined towards Social Democratic values by about two to one. The Nobel Committee achieved credibility by selecting scholars at the top of their game. One exception was Friedrich von Hayek, whose reputation had collapsed, and who received a big citation boost from the award. The committee excluded or held back some highly cited scholars, at least two of them on ideological grounds.

In its first historical phase from the 1870s to the 1950s, market-clearing equilibrium economics accorded with the low-taxation norms of classical liberalism. The post-war success of Social Democracy challenged this model. Economics responded by flipping over; it replaced the premise of harmony with a motivational assumption of bad faith. It challenged Social Democracy on grounds of efficiency, but this reversal carried a cost. Harmony doctrines made it possible to prescribe optimal policies. The assumption of bad faith made outcomes indeterminate. Self-seeking no longer delivered the best outcomes. The authority of economics was undermined. And the assumption of bad faith promoted bad faith.

In Sweden itself, Social Democracy was challenged directly by a group of economists associated with Professor Assar Lindbeck, who also dominated the Nobel awards. Lindbeck's allegations of Social Democratic inefficiency were not well-founded. The economic crisis he warned of eventually arrived, but not for the reasons he expected. It was caused by financial deregulation, which Lindbeck and other market-liberal economists supported. When invited by a centre-right government to lay down policy, Lindbeck was not fazed: he prescribed a contraction of labour entitlements. His reforms were taken up in part, but their relevance is doubtful. Despite market liberalism, Social Democracy in Sweden was adaptable, survived the alternation of parties in government, and also the social change of de-industrialization.

Beyond Scandinavia, market-friendly reforms were imposed by the international financial agencies based in Washington. The 'Washington Consensus' extended credit to developing countries, but on condition of business-friendly deregulation. An unexpected consequence was a tide of corruption which welled up in the borrowing countries, and then spread back into the core Western economies where it has become pervasive. This malaise, we argue, was sanctioned by the ethical neutrality professed by economics. It demonstrated that the ethical indifference of doctrines could have a serious economic and social cost.

In conclusion, the influence of economics is at odds with its shortcomings as a philosophy, as a scientific doctrine, and as a set of policy norms. The invisible hand is magical thinking, and its repeated disconfirmation has had little effect. On the other hand, economics has a set of empirical disciplines and achievements, with enclaves of technical and even scientific credibility. This suggests some downgrading of authority, but not all the way. Economics is not superior to other sources of authority, but is not necessarily inferior to them either; it should be taken as one voice among many. In that respect, it is rather like Social Democracy. The Nobel Prize committee has been able to maintain the credibility of the prize only by acknowledging that economics does not hang together as a single all-encompassing system of thought. Social Democracy provides an alternative that is pragmatically successful, analytically coherent, economically efficient, ethically attractive, and theoretically modest.