

Introduction

Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

— J. M. Keynes¹

Let us clear from the ground the metaphysical or general principle upon which, from time to time, *laissez-faire* has been founded. It is not true that individuals possess a prescriptive ‘natural liberty’ in their economic activities. There is no ‘compact’ conferring perpetual rights on those who Have or those who Acquire. The world is *not* so governed from above that private and social interests always coincide. It is not a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately.

— J. M. Keynes²

There are many others who are much better equipped than I am to write this book. Many sympathetic social theorists and economists schooled in philosophy and economics could have unravelled the complex issues underpinning economic fundamentalism and its perverse influence on public policy. While there is a huge literature critiquing libertarian philosophy and mainstream economics in great depth from every possible angle, I found few texts that provided an overview that addressed my needs as a policy analyst and none that covered the field as I would have liked. I am therefore writing my own broad-ranging multi-disciplinary account to explain how we arrived at this point and what is wrong with it. I initially wrote primarily for my own benefit so as to better understand the critique that was lurking somewhere in my subconscious, and in a wide range of literature, and which underpinned the widely shared concern that mainstream economics and its derivative—economic fundamentalism—was simply ‘bullshit’. In doing so, I make few claims to originality other than in respect of the selection and organisation of the material. I leave it to economic fundamentalists and mainstream economists to defend their positions.

In his paper and subsequent book *On Bullshit*,³ leading American philosopher Harry Frankfurt has described bullshit as a form of bluffing, arguing that it is a greater threat to truth than lies. He believes that the production of bullshit is stimulated whenever a person’s obligations or opportunities to speak about some topic are more extensive than his or her knowledge. This is consistent with the popular use of the term ‘mumbo jumbo’, in which technical language is used to enhance the authority of the user and to render his or her claims less susceptible

to public scrutiny. Indeed, it has been shown recently that many healthy people confabulate routinely when pressed to talk about something they have no knowledge of, or when they try to rationalise decisions or justify opinions—that is, they invent stories that they recite with complete conviction, seeming to believe what they say.⁴ Some neuroscientists believe that we confabulate all the time as we try to make sense of the world around us. Since story-telling is central to human life and intelligence, this tendency should come as no surprise.

Herein lies the danger of the compartmentalisation of knowledge and the rise of the expert economist who pronounces on public policy claiming a special relationship with the truth. As I detail in Chapter 1, this particular confabulation—economic fundamentalism—has underpinned much public policy formation throughout the world in recent decades. It is dangerous because it is diminishing our understanding of ourselves and undermining many of the institutional protections erected with such struggle to protect the vulnerable in the nineteenth and twentieth centuries.

An additional strong driver for this work is my belief, based on my own experience, that economics, as I was taught it, fails to come to grips with reality—the way the economy really functions. The idealisation of the market, which lies at the heart of neoclassical economics and the associated mathematical deductive formalism, disregards the gross imperfections of this very human activity and describes a world that does not exist and that is radically different from the one we inhabit. My work also reflects my frustration with the resultant crude policy advice provided to government ministers and with the constraint it imposes on policy options. Important policy decisions are made on the basis of a very superficial understanding of economic ‘principles’ and crude political theorising, rather than a detailed understanding of particular problems and their origins. In particular, policy problems are analysed in terms of ‘market failure’—a concept arising out of the neoclassical idealisation of markets with its patently false assumptions. Not only do market-failure arguments have the perverse effect of reinforcing the dominant paradigm, they fail to gain policy traction in practice. I am concerned particularly with the misuse of this school of economic thought to justify the excesses of the pro-market ‘reforms’ and the mean-spirited social policies that are occurring throughout the world.

While critiques of neoclassical economics are common, most are highly specialised, addressing particular concerns within a Newtonian/Enlightenment framework. They are not accessible to most readers and, on the whole, they have failed to influence policy makers. This failure reflects the entrenched power of this school in policy circles. In any event, I feel that the problem lies at a more fundamental level. What is required is a change of paradigm, licensing multiple, partial perspectives, rather than a more refined dominant formalism based on stylised assumptions. Consequently, my research has been directed at trying to

articulate that more fundamental critique to myself, and then to communicate it to a wider audience. While I don't expect to convince many committed economic fundamentalists and mainstream economists of the error of their ways, I do hope to persuade the rest of us to stop listening to them.

The book sets out to examine the claims of economic fundamentalism from a number of complementary perspectives, building a case for a less dogmatic and more eclectic and pragmatic approach to public policy formation. Chapter 1, 'Setting the Scene', begins our journey proper by describing the problem as I see it. It describes the strong influence of economic fundamentalism on contemporary public policy and emphasises the way in which a fundamentalist vocabulary derived from mainstream economics now dominates public policy discourse, forcing out other vocabularies.

Chapter 2, 'The Creation of Social Order is Irreducibly a Moral Project', begins the critique proper by criticising the economic fundamentalist view that the social order is based wholly on self-interest. It takes an evolutionary and constructionist approach, pointing out that we are social animals, creating our social worlds, our moral order, through language and stories. It goes on to criticise the Enlightenment optimism that human beings are perfectible, drawing on some traditional religious ideas and some recent experience to illustrate the point. Chapter 3, 'The Relationship Between the Economic System and the Social Order', continues the critique begun in Chapter 2. It draws, in particular, on *Towards a Just Social Order* by Derek L. Phillips⁵ to provide a summary account of recent theoretical approaches to social order, suggesting, however, that there is no need to adopt a unicausal account of that order, or to take such speculative theoretical stories too seriously. Importantly, the chapter concludes by arguing that the moral order cannot be reduced to a social contract. Chapter 4, 'A Brief Account of the Historical Origins of Economic Fundamentalism', goes on to give a historical account of the development of the social-contract ideas that underpin economic fundamentalism. In giving this account, I have drawn on work by Charles M. A. Clark⁶ and Patrick Atiyah⁷ in particular.

Chapter 5, 'A Critique of the Conceptual Foundations of Economic Fundamentalism', critiques the Enlightenment and modernism and the attempt to find a foundation for certain knowledge. It points to the dissolution of the modern world-view and the false certainty that comes with it. There is no certain knowledge and such knowledge as we possess is constructed socially from a particular point of view. Chapter 6, 'The Privileged Status of "Science"', builds on the above critique of the Enlightenment to criticise the crude nineteenth-century positivist understanding of 'science' on which economic fundamentalism relies. It draws on the account given in Blaug's *Methodology of Economics*⁸ in particular, supplemented by the accounts of numerous other theorists to emphasise that scientific knowledge is always constructed socially

from a particular perspective, that there are no privileged perspectives and such knowledge is forever subject to revision. It concludes that the claim that science has a privileged epistemological status in virtue of its empirical basis cannot be sustained. Rather, scientific inquiry and normative theorising use much the same practical reasoning. The chapter then extends to a discussion of the social disciplines, seeing the claims of social science as being even more open to question.

Chapter 7, 'What, Then, Can We Say of the Status of Economics?', goes on to suggest that there is no such thing as a value-free social discipline. Economics should, therefore, be seen as a moral discipline, rather than as a quasi-natural science. I go on to criticise recent suggestions that economists should study moral philosophy on the basis that it is an appeal from one failed Enlightenment project to another. This is not to suggest that a morally aware economist is a bad thing, rather that moral and political theorising should have no privileged status in policy making. These are only two of the numerous sources of the stories that form the values of our society.

Chapter 8, 'The Critique of Neoclassical Economics and its Influence on Policy Decisions', provides a critique of neoclassical economics on the basis that it is largely a failed attempt to give a mechanistic account of the functioning of the economic system. What we need is not a reformed neoclassical economics—a reformed Newtonian theory—but rather a richer set of metaphors for describing economic life. While experimental, behavioural economics, information economics and new growth theory have all contributed important new insights that act as correctives to neoclassical theorising, we need to get beyond the idea that economic theorising can describe or legislate an ideal form of economic organisation. Consequently, we need to recognise that policy decisions are policy experiments, rather than deductions from well-established deterministic theory. This should take us towards a more evolutionary approach that attempts to take the complexity of economic life seriously. Nevertheless, it needs to be kept in mind that there are no privileged perspectives, only more or less useful ones, and neoclassical theorising will still have a place in particular situations. The chapter concludes by suggesting that the teaching of economics should be altered so that the core content of undergraduate courses consists of the philosophy of the social disciplines, the history of economic thought, contemporary schools of economic thought—and then, and only then, a more detailed study of particular schools.

Chapter 9, 'The Doctrine of Freedom of Contract', is intended to provide an important example of the influence of economic ideas on a fundamental legal institution: the law of contract. An extreme version of this doctrine underpins much of economic fundamentalism. The chapter gives a historical account of the attitude to contract law and fair-trading issues in the United Kingdom and the

United States in the eighteenth and nineteenth centuries—attitudes that we in Australia have inherited. Chapter 10, ‘Some Normative Reflections’, is a normative reflection on what has gone before. Taking something that is a good—such as economic analysis, markets, human rights, liberty or money—and turning it into an absolute is the essence of a new idolatry.

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ENDNOTES

¹ Keynes 1936, p. 383.

² Keynes 1926, p. 39 (emphasis in original).

³ Frankfurt 1992.

⁴ Phillips 2006.

⁵ Phillips 1986.

⁶ Clark 1992.

⁷ Atiyah 1979.

⁸ Blaug 1992.