



# **The Neoliberal and the Powerlessness of Ideas**

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# The Neoliberal and the Powerlessness of Ideas

*Keynes famously claimed 'soon or late, it is ideas, not vested interests which are dangerous for good or evil'. His neoliberal critics have frequently concurred with this contention, and have happily used the example of Keynes to illustrate it. But is 'the power of ideas' consistent with neoliberal doctrine? The paper argues that the most conclusive case for categorical 'market success' propositions will eliminate ideas as explanatory of economic failure, and imply such failures must be traced to exploitation of by special interests. However, the paper argues that neoliberalism is committed to 'government failure' not 'market success', and government failure does give room for ideas to have power, for good or ill.*

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<sup>1</sup> This paper was largely written during the author's study leave at Balliol College, Oxford.

## INTRODUCTION

Social philosophies – such as neoliberalism - might be interpreted as centrifugal forces operating on the ‘interest bargain’ and the ‘value compromise’ that constitute the ruling order. If that is accepted, the question then arises: how strong is this centrifugal force? To what extent does the content of social philosophies - ‘ideas’ - impinge on events? Briefly, what is the ‘power of ideas’?

There is no lack of disagreement on this question; a disagreement that is well underlined by the divergence amongst three authors who, otherwise, share something in spirit: Adam Smith, John Stuart Mill, and J.M. Keynes.

We can start with Adam Smith and the *Wealth of Nations*. His chapter entitled ‘Of Restraints upon the Importation from Foreign Countries of such Goods as can be Produced at Home’ is a classically Smithian one. It is there that Smith’s ‘invisible hand’ passage appears; it is there that he marshals his critique of the policy of mercantilism. It is there that he proposes a gradualist abolition of just about all regulation and restraints on international trade. At the conclusion of these proposals Smith abruptly adds:

*To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.*

Smith, *Wealth of Nations*, 1776

This is a striking passage. It betrays a deep pessimism about the power of ideas; a pessimism that is curious for someone in the midst of a lengthy book of ideas, that has been so apparently influential; a pessimism not borne out by subsequent events. The last edition of the *Wealth of Nations* was in 1791, and the abolition of ‘the Corn Laws’ – the discouragement of grain imports and the centrepiece of mercantilism - took place in 1846. Anything which is achieved in 55 years is probably not ‘absurdly utopian’.

On the power of ideas Smith may be contrasted with Mill.

*One person with a belief is a social power equal to ninety-nine who have only interests... If anyone requires to be convinced that speculative thought is one of the chief elements of social power, let him bethink himself of the age in which there was scarcely a throne in Europe which was not filled by a liberal and reforming king, a liberal and reforming emperor, or strangest of all a liberal and reforming pope ; the age of Frederick the Great, of Catherine the Second ... when ... all the active minds among the noblesse were filled with ideas which were soon after to cost them so dear. [This is] Surely a conclusive example how far physical and economic power is far from being the whole of social power.*

*It was not by any change in the distribution of material interests, but by the spread of moral convictions that negro slavery had been put an end to in the British Empire and elsewhere'*

Mill, *Representative Government*, 1861

Mill is sufficient to make the contrast with Smith over the power of ideas. But it is hard to resist citing that ceaselessly requoted peroration to the power of ideas supplied by Keynes in the closing paragraph of the *General Theory*.

*the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the part of vested interests is vastly exaggerated compared with the gradual encroachment of ideas ...soon or late, it is ideas, not vested interests which are dangerous for good or evil.*

Keynes, *General Theory*, 1936

This makes impressive reading. It is, regrettably, entirely dogmatic. But for all that, it gives forceful expression to a notion that will always be popular with intellectuals. If ideas were a power it would confer a relevance of intellectuals, in place of a demoralising irrelevance; if the course of events was some 'unfolding of ideas' the

world would be more interesting to . Perhaps the tug that Keynes' paragraph has on 'ideas people' is one reason why, despite the precedent of Adam Smith, the post-war 'neo liberals' (Buchanan, Hayek, Friedman) have tended to side with Keynes. The accent of these 'market liberals' is, perhaps, on the power of bad ideas – indeed, the spread of Keynesian policy is one of their own preferred illustrations of the power of bad ideas. <sup>2</sup> Yet their accent is far from wholly negative: all that crusading by Friedman (eg *Free to Choose*) can only be underpinned by some sort of belief in the Power of Ideas to do good.<sup>3</sup>

The query arises: was the neo liberals' subscription to the power of ideas simply piece of hopefulness on their part? Or perhaps just a strategic rhetorical move?<sup>4</sup> Or was it, instead, a logical implication of their outlook?

To put the question another way, in the light of their own tenets, what *should be* the position of market liberals on the power of ideas?

We can address a parallel question to Keynes. In the light of Keynes' own tenets what 'should be' his position on the power of ideas?

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<sup>2</sup> See, for example, these two titles of Buchanan:

*Democracy in deficit: the political legacy of Lord Keynes*

Buchanan 1977

*The consequences of Mr Keynes: an analysis of the misuse of economic theory for political profiteering, with proposals for constitutional disciplines*

Buchanan 1978

<sup>3</sup> Buchanan also expresses such a hopeful outlook when says that Marxism could have been headed off if only marginal productivity theory was developed a generation before JB Clarke. (Of course, it was developed a generation before Clarke, by Heinrich von Thünen). The 'power of ideas' is also a staple rhetoric of market liberal think tanks. Airing Smith's pessimism in such places is offending, exasperating, and deemed willfully wrongheaded. Naturally, there is no point to a think tank if thought is useless....

<sup>4</sup> If the good ideas are on the side of neoliberalism, then let the field of battle shift to ideas.

To put the issue more generally: might it be that there is a mapping of beliefs about the economic system into beliefs about the significance of ideas in this system? Such a mapping might seem a long shot. But a case can be made. This paper will argue that the best case for categorical 'market success' propositions wholly eliminates the 'state of ideas' as explanatory of economic dysfunction, and implies such dysfunction must be traced to manipulation of government apparatus by special interest.

In tandem, this paper will also argue that best case for categorical 'market failure' propositions seriously weakens 'special interests' as explanatory of economic pathologies, and implies such dysfunction must be traced to some failure to absorb the best available ideas.

Thus on the face it, the neoliberal seems to have got their seating in this controversy mixed up; in invoking the power of ideas they backing the wrong horse, at least a horse it is not logical for them to back. By their own tenets they are pinning their hopes unsuccessfully. All that crusading is a waste of time.

However, the neoliberal position does not turn on the categorical propositions of market success. Rather, it turns on government failure. Thus market liberals are not obliged by the implication of market success propositions to trace dysfunction to exploitation of the government apparatus by special interests. So what, after all this, is the I will argue that that the 'rational political actor' model – essential to neoliberalism – is suggestive that the strengths of ideas and interests are not independent but tied up – and goes some way to achieving a synthesis of the dialectic of interests and ideas.

### **Three Cameo Case Studies**

One might proceed directly to the relatively abstract argument, but it might be usefully airing of the materials at hand to begin more concretely, by reviewing some episodes.

Consider the grand old cause of the end of Mercantilism, and the burgeoning of Free Trade

Smith clearly traces the basis of Mercantilism to the political power of those that benefit from it. He compares the power of 'private interests' behind mercantilism to the power of disloyal standing army; an army of occupation, indeed. But not every student of the contention between and free trade sees nothing but a ruthless exercise of power. Consider C.P Kindleberger's 'The Rise of Free Trade in Western

Europe, 1820-1875' that deals with the dismantling of mercantilist trade system, in particular the corn laws. He notes that 'many landlords agreeable to the repeal of the Corn Laws'.<sup>5</sup> He rejects an interest explanation is that 'English Political Economists persuaded Britain, which persuaded Europe, by precept and example'.

Consider the end of slavery in the British Empire. As Mill suggested, this episode seems sure testimony to the power of 'moral convictions' in policy matters. And not cheaply held 'moral convictions' either: £20m was paid to slave owners to induce their acquiescence, about 4 percent on annual UK GDP.

But the role of 'moral convictions' in abolition was challenged by Eric Williams (1911-1981)<sup>6</sup> in his DPhil on 'The Economic Aspect of the Abolition of the West Indian Slave Trade and Slavery', that was published in 1944 under the more succinct title of, *Capitalism and Slavery*.

Williams outlook on the relation between ideas and events is conveyed by this quote:

*Slavery was not born of racism. Rather, racism was the consequence of slavery*

*Capitalism and Slavery, 7*

To Williams, upholding a functionalist Marxism, the institution of slavery was summoned and dispensed with by British capitalism according to its needs.

Without embracing a functionalist Marxism, one can still register certain material factors which were weighing against slave trade at the time of its abolition in 1807.

Above all, West Indian sugar production was by the early 19<sup>th</sup> c in a profitability crisis; something which clearly damaged the incentive for the slave trade (why import them if they lose money?).

It can be added that there was in the air the calculation that sugar production in non-British locales (French colonies, the USA) would be more disadvantaged by the elimination of slave trade than West Indian sugar production would be.

Finally, the independence of the USA had from 1776 permanently reduced the voice of the planter interest in Great Britain; not only relative to humanitarian opinion, but

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<sup>5</sup> Kindleberger also states that repeal was not, in fact, followed by a reduction in farm incomes. This may be why landlords were not adverse. Thus Kindleberger's observation is actually congenial to an interest based explanation of repeal.

<sup>6</sup> Prime Minister of Trinidad and Tobago 1956-1981.

also relative to rival interests (e.g. sugar from East Indies) who lacked the (seeming) cost advantage of slavery, and would be glad of the West Indies also lacking it.

One can attempt to explain abolition as a manifestation of a shifting economic and political calculus, rather than as a burgeoning of a moral conviction.

Consider the Keynesian revolution.

It is easy and tempting to give 'economist centred story', that would begin with the 'new dispensation' being revealed in Cambridge in 1936, and its apostles sent out to the four corners to preach the word. Such a story about 'how Keynes came to America' has been given by Galbraith, with Harvard's economics department featuring prominently.

But the size of the impact of Keynes book on policy anywhere is uncertain. In so far as there was an impact, it was delayed, indirect, deeply mediated by political circumstances, and touched by paradox: unemployment was ended by an unlooked for World War, not by any resolution to 'beat unemployment' through public works. Keynesianism came to UK in the struggle with the excess demand of that World War.

Even linkages that might seem promising to an economist-centred story turn out badly; the White House meeting of Keynes and Roosevelt in 1934 was famously a dialog of the deaf, and throughout the 1930s the New Deal treated deficit financing as no more than a (sometimes) necessary evil.<sup>7</sup> And when Keynesianism did eventually establish its first 'beachhead' in the Roosevelt administration, 'Harvard' has no role in it, as Michael Janeway's detailed memoir, *The Fall of the House of Roosevelt: brokers of ideas and powers from FDR to LBJ*, unintentionally confirms.

### **The Two Domains**

To move from the particular to the abstract, it is necessary to remove a misrepresentation that clouds the issue at hand; namely the misrepresentation that what is at stake amounts to a conflict between 'interests' and 'ideas' ; 'interests versus ideas'. This formulation is misleading ; for it is not the case that there is some

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<sup>7</sup>To the extent that New Deal semi-intellectuals had a role in the Roosevelt decisions there was a paradox; for they were intellectuals who didn't like ideas. Under the sway of a Dewyite pragmatism they shunned as 'formalism' anything like theory.



continuum with 'interests' at one and 'ideas' at the other. Rather there are two distinct domains

The first domain is the way you get to your goal, this the domain of pathfinders and guide ropes. There are sort of ways to your destination ...

You could improvise according circumstances; this is the creed of 'action', and 'something must be done'. It is the realm the ad hoc, policy gimmicks.

You could conform to custom, convention, administrative or social practice ('we have always done it this way').

You obey the imperative of 'common sense', or (pejoratively) 'pre-scientific naivety'. This is the realm Do It Yourself Economics.

Or you could make use of ideas. By ideas we mean the cognitive<sup>8</sup>. It is be distinguished from the purely attitudinal, or 'feelings', 'sentiments'.<sup>9</sup> Neither is it the stray, spontaneous thought that seems to be the free gift of our consciousness. Ideas are the product the tools of thinking; 'capital intensive thinking'.<sup>10</sup>

To act according to Principle, paying heed to the theoretical, to decide by analysis (rather than deferring to custom), relying on science; all these come down to using ideas as a pathfinder a guide rope.

And this domain of 'guide ropes and path finders' ideas will jostle with all the rivals I mentioned above; improvisation, custom, common sense, and 'whatever works'.

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<sup>8</sup> Even within the cognitive we exclude

- (i) The purely computational, algorithmic, methodological, or procedural; things which can be cognitive, but however sophisticated (and useful) lack the substantive character of 'ideas'.
- (ii)

<sup>9</sup> Where the purely attitudinal ends and (dysfunctional) thought begins is not always clear; think of an irrational stereotype. And beyond the issue of logical demarcation, flawed thought can be produced by attitudes, as a rationalization of those attitudes.

<sup>10</sup> Ideas have not been defined rational thought, everything from critical science to dogmatic ideology may be ideas. But it is fairly accurate to say that those involved in the debate assumed moving along a rationality dimension requires more ideas. Ideas were necessary, if not sufficient to move along it.

The second domain: of motivations goals and purposes; this not concerned with how to get there, but where you want to go; goals of the system.

We think of rival motivations, rival purposes (or goals of the system jostling to be or influence the goal of the system. Obviously there are many rivals purposes to be purpose of the system; some of these rivals needs not be individual purposes, there are systems which act according to a purpose which is no single individual purpose

We can attempt to give these two domains some structure; the contents of each domain can be put in a line; a spectrum.

With respect to the domain of means, guide ropes and path finders we can attempt to place each in a spectrum of intellectual sophistication.

With respect to the domain of motivations, goals and purposes of a system; we can sort rival system goals according to 'largeness' , 'inclusiveness' 'public spiritedness' of system goals.

We can put question: along which spectrum are movements more explanatory of the world; *along which spectrum do movements make the world move?*

Those who answer by point to the domain of pathfinders are commonly frustrated by the wantonly backward, and crude pathfinders the world uses, but are not without hope ... .

Those who point to the domain of motivations are frustrated by the wantonly narrow of purposes of the system, yet not without hope ... .

I think this choice between spectrums captures the division between those who plump for power of Ideas or interests.

Let me get closer to the location of the more specific controversy that Smith and Keynes were concerned with.

Both Smith and Keynes are concerned that there was something amiss with the economic system. The idea is that the economic system (like a machine) has a maximal performance; but that maximal performance is not being achieved (believed Smith and Keynes); there is some inefficiency in the broad sense (not in the merely technological sense) of the machine not doing as it could. There was a 'dysfunction'.

In parallel with the two spectra mentioned earlier, we can think of two possible explanations of dysfunction.

Inefficiency/dysfunction is the product of *irrationality*: the refusal of the best ideas or thought available. This could be a rejection of best ideas on account of a rejection of all ideas arising from adherence to convention, or 'common sense', or improvisation, or 'the practical'. Or it could be some misoperation in the cognitive machinery; a bias, or a more elaborate intellectual deformation [such as 'scientism'].

Inefficiency/dysfunction is the product of *exploitation*: (=individual benefit at social cost = the sum of disbenefits exceeds the benefit. <sup>11</sup>

Clearly Smith favoured an exploitation thesis, and Keynes favoured irrationality thesis.

We can now be prepared to tackle the question of this paper: can we rationalise their positions in terms of their own 'economic cosmology'?

### **The Smithian Argument for Exploitation over Irrationality**

Smith famously advanced a market success proposition, the 'Invisible Hand'; which has it that the security of property and competitiveness markets will ensure the system works maximally. According to the Invisible Hand, individuals by pursuing their own interest achieve a socially efficient outcome without any centrally planning, directing, regulating. It is socially efficient in that no modification of its outcomes can produce a benefit to society as a whole.

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<sup>11</sup> These two visions support two conceptions of the elimination of dysfunction.

According to the first, reform (=the elimination of dysfunction) amounts to an encounter between those who benefit from dysfunction and those who are penalised by the dysfunction; this encounter seems to be political. According to the second, reform is all about the encounter between rationality vs irrationality. This is the Enlightenment theory of reform process: victorious confrontations between enlightenment and ignorance; slow retreat of prejudice or naivety before education and proselytisation, and the hard lessons of experience. These alternatives are not mutually exclusive; it is plausible that the path of exploitation is eased by irrationality. And if that is the case then there is evidently an incentive for interest to foster irrationality. Such interlinkages could be developed, but it is expeditious to ignore them here.

To reach this proposition Smith certainly assumed that people know their own interest as market players ... they know how to manage the matters under their control in the standard market game so how to maximise their interest - how much to produce or sell or allocate. If you like, of the buttons and switches that the market game makes available to them, they know what buttons to press and switches to flick to maximise their own interest. But they don't need to know anything beyond that. This is important: in Smith ideas ['enlightenment'] are redundant for this social efficiency proposition. The Invisible Hand works without requiring any appreciation or adherence by the population to the idea of the Invisible Hand; the population doesn't have to understand how the system works for the system to work. The population might be the most convinced and crude mercantilists; it is irrelevant to the success of the Invisible Hand. In the same way, the population does not have to believe that speculation in commodities stabilises commodity prices – something the public certainly did not believe – in order for speculation in commodities to stabilise commodity prices (as Smith believed it did). The population did not have to believe in Say's Law for Say's law to operate ... etc.

The public may be ignorant of great host of propositions associated with classical or neoclassical theory ... and this ignorance is not in the least diminishing of the portion truth these propositions bear.

To put it summary terms, the success of Smith's Invisible Hand doesn't require the general public to be philosophers. Or anyone to be a philosopher, the necessity of some Millian 'intellectual aristocracy' of *active minds* is undone. All that is needed is for the generality of the public to know how to manage their own interests. For Smith good ideas are redundant to good outcomes.

To say that good philosophy is redundant to social efficiency is, as matter of logic, obviously not to rule out the possibility of bad philosophy being harmful to social efficiency. To put the point more specifically, to say that good philosophy is redundant to the success of the Invisible Hand doesn't rule out the possibility of a public of convinced mercantilists instituting a socially costly mercantilist regime.

Thus it seems that in Smith "ideas" can be force, but only for ill. We are silently moving towards the notion that it would be for best if we did without ideas. There are intimations shades of Burkean contempt for 'geometric reasoners'; and the anti-enlightenment there is reason, and there is sophistry.

One indication of Smith's proximity to such a position is his usage of the word ideas in the *Wealth of Nations*. It appears three times: 'visionary ideas', 'extravagant ideas', and (worst of all) 'mercantilist ideas'.

It may seem paradoxical for a *lumiere* to be deprecating intellect. But it is consonant with the fallibilism of his closest intellectual peer, David Hume, who famously deployed reason to destroy the pretensions of reason, and expose its missteps. Hume could enjoy relating how the uninstructed could approach wisdom more closely than the more learned. In his *History of England* he savours the scene of the 'barbarian' Tsar of Muscovy tossing aside the mercantilist precepts that Queen Elizabeth's ambassadors were attempting to inculcate him with; the unsophisticated is closer to the truth than the 'sophistries' of mercantilists.

Yet Hume and Smith were something of 'geometric reasoners' themselves, and to believe that ideas could be dangerous for ill could put them in an awkward corner. Smith avoided that awkward corner in not blaming for dysfunction on 'bad ideas'. Rather, as I have noted, Smith blames dysfunction on the operation interests. Their significance in this regard reflected his economics: while no constraint on the workings of the Invisible Hand can produce a social benefit, there obviously are constraints that produce a private benefit – but at a social cost. The obvious example is collusive pricing; or 'monopoly'. And the private benefits monopoly explained why there was mercantilist policy; as it amounted to granting certain interests a degree of exemption from competition.

Smith underlined his exploitation theory of mercantilism by pointing out that mercantilist practice deviated mercantilist theory. Thus although Mercantilist theory was supposedly about securing a trade surplus, in its practise certain imports were *encouraged*; and certain exports were *discouraged*; Thus yarn was facilitated; as mercantile interest was benefitted by a low price of yarn (an input into cloth output). The export of cattle horn was discouraged because that was an input into domestic industry (comb making). The Mercantilist theory was just a rationalisation of exploitation.

### **The anti-Liberal Argument for Ideas over Interests**

If the Smithian case for the irrelevance of inferior ideas to dysfunction is a bit inarticulate, the relevance of interests as responsible for dysfunction is quite clear, as stressed above: it flows from his tenet of the social efficiency of decentralised competitive markets.

But what if we were to move away from Smith's tenet? What if we were to decline the thesis social efficiency of decentralised competitive markets? Would the pursuit of special interest still be so bound up with dysfunction?

Consider perhaps the least controversial way to the discard social efficiency of decentralised competitive markets: to relax the assumption that the consumption of every good or 'rival'; for A to consume more it is for B to necessarily consume less. As economic theory has perceived indistinctly since the time of Mill, and with great clarity since 1950s, if the consumption of any service is non-rival then the social efficiency of the competitive market [in ordinary circumstances] falters. The market undersupplies of 'public goods'. Further, and critically, that social loss seems not to be matched by any private benefit. Who benefits from a deficiency of public goods? Doubtless, some beneficiary can be discovered: so sellers of lamps benefit from the absence of street lighting. But these interests seem paltry, and it seems difficult to trace the undersupply of public goods. Social loss here seems not due to exploitation. The problem would seem to lie in an insufficient consciousness that for fundamental reasons leaving public goods to the market is never going to achieve what could be achieved. So in the context of the inefficiency of market provision the power of ideas obtains some traction.

Let me instance an economic phenomenon that makes the above suggestion stronger, by inducing market liberals and their adversaries will take different sides over the responsibility of interests and ideas for the dysfunction. The phenomenon is the social loss arising from unemployment.<sup>12</sup>

The market liberal explanation of unemployment is simple: labour has overpriced its labour. It hasn't done so unaccountably; it has overpriced it to its own benefit. But at some cost to society. There is a private benefit behind the social cost of unemployment, and the market liberal explanation of unemployment is an "exploitation" one.

The Keynesian account of unemployment totally rejects wage behaviour as responsible for unemployment, and instead invokes a shortage of 'effective demand'. In Keynesian doctrine unemployment has nothing to do with anyone

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<sup>12</sup> The focus on unemployment as an efficiency issue: a waste of resources, rather than as an equity issue. Let's think of it as a misfortune to society, rather than as a misfortune to the unemployed.

benefitting from unemployment. Given his the choice between ideas and vested interests, Keynes *had* to blame (inferior) 'ideas' rather than vested interests.<sup>13</sup>

Here it should be allowed that there have been 'interest' explanations of the adoption, or refusal, of Keynesianism. One is 'Keynesian Politics' by Peter A. Gourevitch (1989).

Gourevitch starts with the contention that before 1940 Keynesian policies were adopted (not adopted) in a given country according to whether a ruling coalition of agricultural capital and industrial labour had been established (not established).

Gourevitch's rationalization of this (supposed) observation is that Keynesianism was part and parcel of the advent of the enlarged 20th state, and a departure from 19<sup>th</sup> c 'sound money'. The existing political barrier to these transitions was that industrial capital was hostile to larger state and favourable to 'sound money'. But in the 1930s a space was created for Keynesianism by the fact that agricultural capital and industrial labour – that had previously been divided over tariffs for manufactures – now united on a platform of a larger state; one that would give price supports to agriculture and welfare benefits to labour, as well as countenancing the 'unsound' money that agriculture had long favoured.

Gourevitch's case in point for his contention is Sweden. He also invokes Popular Front France. Less satisfyingly, he cites the USA as corroborative instance. But as is well appreciated by historians, the US did not adopt deficit financing as a policy in the 30s: there were all sorts New Deal schemes aplenty - depreciating gold value of

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<sup>13</sup>But I have not overreached my case? Will not the achievement of full employment necessarily require changes in certain key prices; exchange rates, interest rates, wage rates? And might not those changes be harmful to certain interests? To illustrate, if labour demand is inelastic then the wages bill will be reduced with a move to full employment, and that could be construed as hostile to the labour interest. With specific respect to a lower wages bill, the Keynesian riposte was that this was that either this was not implied by full employment, or that labour had not control over real wages. More generally, it can be plausibly argued that the number of instruments that can secure full employment (monetary policy, exchange rate policy, fiscal policy) is sufficient that that a full employment policy can be devised that is *actually* pareto improving.

the \$, nationwide minimum wage, social security legislation - but no Keynesian macroeconomic policy. I feel there is not enough Keynesian economics is Gourevitch's notion of 'Keynesian politics'.

Not only is the pursuit of special interests not engendering of social waste in the Keynesian model, it could be remedying. For in Keynesian economics the degree of utilization of resources (determined by effective demand) dominates the efficient allocation of resources that the Invisible Hand secures. The regulation that on the face is a misallocation of resources could increase the utilization of resources; thus mercantilist policies can increase national income.

The upshot of all this is that in the Keynesian vision 'interests' are not the bugbear of policy; bad ideas are.

There is a further twist that underlines the bane of bad ideas in the Keynesian vision. if the economic players did not understand effective demand then the very things that would assist effective demand – looser monetary policy and deficit finance - might so damage confidence (and so investment) that the policies would be worse than useless.<sup>14</sup>

### **An attempt at summary**

To try to summarise:

In the classical liberal explanation, the elimination of any bad ideas offers no solution to dysfunction; that dysfunction is the product of exploitation ....

In the Keynesian explanation, the eliminating the power of special interests offers no solution to dysfunction.

Whereas to Smith the system working did not require people subscribe to the Invisible Hand; to Keynes it would seem hard to get the system to work unless people did believe in 'effective' demand ...

Smith: Ideas redundant are for good functioning; but exploitation is necessary for bad functioning

Keynes: Ideas necessary are for good functioning; exploitation is redundant for bad functioning

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<sup>14</sup> 'If ... the public in general was convinced that large-scale deficit appending was a disastrous policy, capital flight and further declines in investment might have followed upon Keynesian "remedies"'. Hirschman 1989, p353.



## fortifying market success propositions

The above may seem neat, but it disguises some soggy in Smith's case for the cited position. His presumption that exploitation was necessary for bad functioning is not well secured to his schema. Indeed, sometimes his analysis left no room for interest to explain the regulation that he was so hostile to. For example, it was his position was that the regulation of grain trade benefitted no interest. So why were there any regulation? His explanation was that regulations gratified malice; they gratified the malice of those who used the law regarding those who the laws were used against. This is an interesting conjecture, but the resort to malice seems as *ad hoc* move that is out of kilter with the rest of his economics.

Smith is inarticulate as to why he thought there was little role bad ideas in dysfunction (and why he thought there was no hope for reversing mercantilism by exposing its bad ideas in the *Wealth of Nations*). But I suggest his key consideration was his belief that each interest understood if a policy was benefiting or costing them: people knew which side their bread was buttered on, economically speaking;

But was Smith right? Granted: it doesn't take much cognitively for an exporter to appreciate a bounty benefits them; that does not extend beyond their competency in a 'market game'. But it seems to take rather more cognitively speaking for any import competing industry that such a bounty harms them. Indeed it takes quite a lot cognitively to appreciate the very uncommonsensical proposition a general export subsidy is exactly equivalent to a general import subsidy; (both involve a reduction in the price of imports relative to exports).

I suggest that the case for the Smithian optimistic judgement about the capacity of interest to rightly judge how policy affected them was tightened by a critique of Keynesian economics that quickened in the 1970s; - the Rational Expectations revolution. The 1970s critique of Keynesian claims amounted to a reformulation of the *invisible hand propositions* - that more tightly bound, I will argue, the adherent to Market Success propositions a special interests explanation of dysfunction; closed off the possibility that ideas might account for dysfunction.

To give the gist, Rational Expectations concluded that the success free market required so much enlightenment that there was no space left for wrong ideas to spoil policy.

To explain this I'll begin with the observation that Keynes vision was squarely focused on the predicament of an economy existing in time, perpetually transitioning from a known present into uncertain future.

In critically appraising Keynes' vision it was realized by the 1970s that to make secure 'market success' propositions in an economy facing an unknown future necessitated investing in market actors a cognitive capacity far greater than Smith ever allowed for. Recall that in the Smithian vision all that is really required of a market participant is that they can competently twiddle their own dials – those given them as a market player - in a way that maximizes your interest. You were only required to understand your own microenvironment. In the Rational Expectations revolution (of Robert Lucas) it was realized a far deeper and more extensive understanding of the economy was required of market players.

To convey the case for this let me invoke a single period model; and imagine the consequence of economy being chopped up, not temporally, but spatially.

So envisage a Smithian global market. A great global market for every commodity, including (say) coffee, where price reflects demands and supplies across all parts to ensure world demand = world supply. Obviously in Africa, coffee supply exceeds demand; but that is matched by the excess of demand over supply in the rest of the world. Prices are such that the excess supply of coffee in Africa just matches the excess demand for coffee in rest of the world; that is how the price 'got there'. But the real point is that there is no need for players to know anything about the state of coffee across the world for ; all that people need to know is price, and how to manage their own affairs (maximizing utility and maximizing profits).

But suppose, for the sake of this argument, that this world market was chopped up by space. Suppose that the first market for coffee (along with all other commodities) is opened in Africa, and a price settled; only then is the market for coffee (and other commodities) is opened in Europe, and a price settled; then America, then Asia ...

This fragmentation will make huge cognitive demands on market players if the market is to succeed. For the price settled in Africa won't be (and certainly shouldn't be) a price that merely equates supply in Africa with demand in Africa; it must allow for coffee exporters projection of demand for Africa-sourced coffee in Europe, Asia, America .... The exporters will have to understand the impacts of various shocks to Europe on coffee demand ... and they will have to understand not just the direct effects of such shocks, but also the indirect effects ... they will have to understand how a shock quite remote from coffee will ripple through the vast economic mechanism to impact on the coffee market; for example, how some shock to the supply of `some factor in tea production will impact on the price of tea in Europe, and so impact on the demand coffee in Europe. They have to understand the whole

economic anatomy of Europe; and to understand the price of tea they must anatomise Asia.

In the absence of a complete market in space - in the case it being chopped up - market players must rationally imagine the complete anatomy of those markets that are absent and only projected. The implication is that market players 'know the model'

The chopping up of 'Space' above is an analogy intended to convey the problem is that we don't have a 'complete market' across time (just as Keynes claim in the *General Theory*). It is chopped up into portions of time; and consequence market success requires that market players be able to rationally imagine the complete anatomy of all those future markets that are absent in the present. Market success propositions require that players must know not just their microenvironment they must 'know the model'

This was the message of the Rational Expectations revolution

The assumption of 'knowing the model' was used defensively by the RE, to fend off Keynesian criticisms: in particular criticisms of Lange and others that deployed arbitrarily decided expectations about the future to conclude that markets will not behave effectively ( in both micro and macro contexts.)

The assumption of 'knowing the model' was also used aggressively: against Keynesian arguments that monetary or fiscal policy can improve on market outcomes. As I have argued if players 'know the model' market success propositions are secured, there is nothing to improve.

The assumption of knowing the model was supported by a rhetoric: 'the public can't be fooled, they are not stupid'. But its more than not being a fool; it is an 'heroic' assumption that the public, beyond knowing how their own twiddling of their own dials will affect them, now understands the behaviour of the whole apparatus.<sup>15</sup>

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<sup>15</sup> Thus, they will know that shifting of a legal incidence of tax from the buyer to the seller will make no difference to ... that the owners of factors specialised in exporters will know that a tax in imports is harmful to them ... indeed, they will know that an x % tax imports is as harmful to them as an x % tax in exports ... they know how the revenues are dispensed; they know how relative prices respond ... They know a lot!

They will indeed appreciate that a general export subsidy is exactly equivalent to a general import subsidy

And they couldn't be silly enough to be mercantilists.

To make the point more formally, since understanding the economy comprehensively is so necessary for the market to succeed, there is no space for the misunderstanding the economy to cause dysfunction through giving rise to some well meant but misguided policy; it can only be exploitation that accounts for dysfunction.

### **The story so far?**

The upshot is that we seem to have a tidy parallelism between the difference over decentralised and centralised on one hand and, on the other, dispute over the power of interests and ideas:

Those who believe to market success should not believe in the power of ideas.

Those who do not believe to market success should believe in the power of ideas.

Market critics should believe in the power of ideas but Market advocates should not

To go back to the question that opened this paper, we infer that neoliberals should doubt their advocacy would have any effect. All they can do is to await a change in configuration of material interests. Such quietism is always an awkward posture.

### **The True Account**

But the inference above is defective; for neoliberals do not base their case on categorical market success propositions implied by Rational Expectations. Rather they base it on government failure propositions; the notion that giving gvt a shooting licence to hunt down problems is a cure worse than the disease.

Not only was neoliberalism not based on Rational Expectations, Rational Expectations took away some sting of government failure propositions that buoyed their case. Thus the bias to deficit financing (that most neoliberals took to be a classic government failure) in some Rational Expectations analyses is harmless. Similarly, active monetary policy (that neoliberals also took to be a classic government failure) is in most Rational Expectations analyses harmless. Neoliberals did not need to be, and did not want to be, any part of the Rational Expectations revolution.

So not yoked to RE, where does that leave the relative significance of ideas and interests in economic failure according to the neoliberal?

Rather than seek some *a priori* tenet of neoliberals on this, the obvious (and safest) route is to inquire how neoliberals would weigh the question in the context rational actor<sup>16</sup> making choices in a political economy context. It is not difficult to log some neoliberal responses.

Consider a classic case rational actor making choices in a political economy context; the voter. The theory of 'rational ignorance' (ie rationally chosen ignorance) is a familiar article in public choice theory. As public choice has stressed since no single vote is ever decisive, voting is radically different from buying. The buyer has an incentive to be informed, the voter seems not to. The solution to crude processes – moving along the rationality spectrum – is a reform in political decision making, such as unanimous decision making.

Notice a corollary: as diminishing rational ignorance is (surely) to have the system serving more motives, neoliberalism analysis suggests that moving along one spectrum might facilitate moving along the other.

Consider a another case of the rational actor making choices in a political economy context: the case where the act of choice is decisive but unpriced. Here I am thinking of the public choice critique of collective decision making as a restaurant where he who makes the choice from the menu neither eats the food nor pays the bill. Again the incentive to know anything is reduced.

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<sup>16</sup> Of course, the use of 'rational' is question begging here. It is essential for the neoliberal theorising to suppose that the beliefs people hold - which may be no more than beliefs about probabilities - are true beliefs. The paper is suggesting that neoliberal's are not beholden to the rational expectations assumptions about the *multiplicity* of our true beliefs. The probabilistic propositions we assent to are true but, are more 'granular' in reference than Rational Expectations would allow; the world comes in bigger chunks epistemologically speaking, so that (for example) the future may be believed to be just like the past. Alternatively, and more radically, neo liberals could embrace the possibility that regardless of what is true of some subject, there is range of position that account themselves equally well to reason. That 'spectrum of rationality' that underlies any concern to fight the battle of ideas dissolves into a mist of *points of view* ... It is noteworthy Buchanan finds appeal in this sort of relativism with his contention that "persons choose how they see reality', and the existence of the 'vantage point' as subversive of the 'absurd' aspiration of positivist science.

The pricelessness of choices has significant implications where the objects of choice are cognitive themselves. Here I will take up a remark from Smith.

*Speculative systems have in all ages of the world been adopted for reasons too frivolous to have determined the judgment of any man of common sense in a matter of the smallest pecuniary interest. [Gross sophistry has scarce ever had any influence upon the opinions of mankind, except in matters of philosophy and speculation; and in these it has frequently had the greatest. ]*

Book V , Ch 1

What is by far the most common reference to ‘sophistry’ in the *Wealth of Nations* ? Adam Smith’s old bane, Mercantilism.

*The sophistry of the mercantile system,*

*the clamour and sophistry of merchants and manufacturers*

*the sophistry of merchants and manufacturers*

*the interested sophistry of merchants and manufacturers*

Here is a thought: that government policy makers have succumbed to sophistry because they have ‘not the smallest pecuniary interest’. It is just a game. It was like gambling when the chips are just plastic tokens.

And here we face a possible extension to neoliberal theory. To a neoliberal the ‘first stop’ for justifying the contention government failure has been ‘interest’; Government is a self-interested monopoly. And so, while government could do things in the public interest, it won’t do them (or won’t do them as much as they could), because it is operating in its own interest. But is there a *power of ideas* model of government failure e? That is the government will seriously and predictably , not only not correct dysfunction, but add to it, on account of resistance (or deafness) to quality in ideas? <sup>17</sup>

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<sup>17</sup> ‘Seriously and predictably’ needs to be inserted to capture the neoliberal’s notion of government failure. Everyone who believes the government policy has been in error believes that government has ‘failed’ in some sense, but only in a much weaker sense than neoliberals. Keynes, after all, believed government had failed in this weak sense.

Smith's remark would be a rather limited foundation for such a theory. But behavioural economics with its extensive study of decision making might provide materials.

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