Heresies and Dogmas in Economics

Geoff Bertram
Institute of Policy Studies, Vctoria University of Wellington
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We live in an age of voodoo – or to borrow John Quiggins' term, zombie - economics[1], where political leaders, many government officials, media commentators on business and economics, and indeed many in the economics profession itself, regularly resort to economic claims based on faith rather than on reason. Most pervasive is blind faith in the market to solve problems of all kinds – not only those which two hundred years of economic research indicates markets are good for, but equally those which two hundred years of research and experience indicate are better handled by other institutional arrangements, including government. This deification of the market as an omniscient arbiter in human affairs is as stultifying to policy thinking and debate as were the religious dogmas of pre-Enlightenment times – and as socially disruptive in its implications, since unregulated markets often turn out to be "slaughterhouses where the strong chop up the weak".[2]

The central humanist vision of the enlightenment was that people need not accept the existing social system as decreed by either God or unchangeable human nature. That opened the possibility of reconstructing society along more rational and moral lines. The vision of "people freely and rationally controlling their own lives" has been an ideal not only of socialism[3] but also of many liberal democrats. It certainly has been central to the vision of many great economist-philosophers – Adam Smith, John Stuart Mill, Alfred Marshall, and in our own time Amartya Sen[4]. It has underpinned recurrent cycles of reformist thinking, including the construction of the welfare state in the twentieth century, an exercise which treated the market system as an effecient wealth generator but an unjust distributor of the benefits from economic growth. Precisely because the welfare state rejected the justice of the market distribution of income and wealth, it is now firmly in the crosshairs of proponents of the latest resurgence of the old free-market dogma that elevates the market above critique or question and requires people to submit themselves meekly to its judgements, much in the same manner as submission was once required by kings and popes.

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1 John Quiggin, *Zombie Economics: How Dead Ideas Still Walk Among Us*, Princeton University Press, 2010.

2 I believe this expression traces back to D.T. Bazelon, *The Paper Economy*, New York: Vintage Books 1963, p.52.

3 The preceding two sentences have been mainly lifted from E.K. Hunt, "Controlling power in the social economy: a socialist approach", *Forum for Social Economics* 15(2): 21-30.

4 Amartya Sen, *The Idea of Justice*, Harvard University Press 2009.

Modern economics is a product of the eighteenth-century Enlightenment, central to which was the idea that there is a self-regulating natural order whose laws of motion can be discovered by the exercise of secular human reason, without the need to appeal to divine intervention or determination. In the realm of science, that idea released physics, chemistry, biology and geology to embark on a triumphant two-century project of uncovering the laws of natural order in the physical realm.

In political and social thinking, the Enlightenment left a more ambiguous legacy. Its elevation of human reason signalled the end of the divine right of kings and the advancement of democratic theory based on individual rights; but the notion of self-regulating laws of nature ran into immediate difficulty when extended to the analysis of human society – especially economic behaviour. Human social behaviour has never been fully determined by impersonal laws of motion, because human beings engage consciously in the construction of their own social order, occasionally set out on major projects to transform it, and clearly are able, by the exercise of collective will, to change the outcomes of market processes. Thus, while it was logical for Enlightenment thinkers to suggest that something akin to natural laws might be at work in the social structures and interactions of daily life, it was significant that this question was raised and answered initially by moral philosophers, steeped in a long intellectual tradition of comparing actual human affairs against "ideal" theoretical benchmarks drawn not from natural law but from moral intuition and reflection..

All the way back to Plato and Aristotle, philosophy had pondered what constituted the good for humankind, which virtues ought to be possessed by rulers under any political order that might prevail, and how the ordinary mass of people could best be induced to behave in accordance with pursuit of the good. So the application of Reason to questions such as these was not new. But prior to the Enlightenment the answer to that last one had relied heavily upon top-down instruments of social control, with social order maintained by the direct exercise of power by secular rulers, and good behaviour regulated by appeal to religious doctrine and institutions.

David Hume and Adam Smith were the moral philosophers who took the definitive steps towards asserting that social order, and particularly order and equilibrium in economic matters, could be (and generally was) sustained not by political control and religious doctrine but simply by the autonomous interaction of ordinary individuals dealing with one another in day to day transactions. For Smith, this was a novel discovery; his *Wealth of Nations* celebrated the realisation that stripping away the policy dogmas of previous centuries, and freeing-up individuals and industries to pursue their self-interest in competitive markets, was the key to a quantum shift in the material wealth of society. But Smith's belief in the creative power of free markets was never a matter of dogma: it was an outcome of empirical observation and reasoned reflection, and at no point did Smith overlook the facts that (i) human behaviour was guided not exclusively by self-interest but also by moral intuitions, which meant that moral philosophy provided a detached standpoint from which the market's achievements could be evaluated on a moral scale; and (ii) that markets can't do everything, and may easily become engines of social destruction if any group or organisation is able to acquire the power to manipulate market outcomes in their own favour. Self-interest, in Smith's vision, is positive when subject to competitive conditions that restrain the acquisition and exercise of power; but pernicious when it is coupled with power. Smith's critique of mercantilism, after all, focused on the malignant consequences of the misplaced use of state power and capture of policy by vested-interest groups of merchants and financiers. This was not a critique of the state as such, simply of bad policy. In Smith's mind the "statesman" retained always a vital place in the social order as his idealised political agent, guided by moral philosophy, and with the authority and ability to face down and regulate the socially-irresponsible centres of market power that would be thrown up if businesspeople were able to organise and exploit market power. Essentially Smith was arguing that in an ideal world, government would be exercised by the philosopher-king of Plato's *Republic*, and that such a ruler would wisely leave markets in general free to do their thing (laisser-faire) while standing always on the sideline as umpire to check the emergence of pernicious power centres pursuing self-interest at the expense of the general good – and stepping in wherever markets failed to provide goods and services that contributed to the common good but were not profitable for private business to undertake.

In the real world, Smith accepted that governments were imperfect, generally run by individuals who fell far short of the statesman ideal, and captured by precisely the vested-interest private lobby groups that an ideal government would suppress or regulate. But Smith absolutely did not on that account call for government itself to be eliminated, let alone for markets to be left exposed to domination and exploitation by powerful private combinations, including the joint-stock companies that he considered subversive of market disciplines. Smith set out a programme for good government that was far more radical than is commonly realised. As I have outlined elsewhere[5], Smith's list of the "duties of the sovereign" points directly towards the twentieth-century welfare state and mixed economy – not towards the neoliberal dream of a withered state and triumphant corporate capitalism.

The central point I want to emphasis here is that Smith's scientific endeavour of seeking evidence for natural laws at work in economic matters was never divorced from his keen awareness

- that people have genuine agency in the making or their own history and the shaping of market outcomes,

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5 Groff Bertram, "Is economics still a branch of moral philosophy?", Sea of Faith conference, October 2011, http://www.sof.org.nz/2011geoffbertramkeynote.pdf .

- that this human agency would include a fair amount of activism by the “sovereign”, and
- that natural laws in human interaction were always subject to human judgment and appropriate intervention.

Smith thus would have accepted, I think, the young Marx’s later complaint about dogmatically pro-market economists that “the economists have only sought to understand the world; the point, however, is to change it”[6]. Smith would not have shared Marx’s political programme of change, but he might well have agreed with Lenin on the importance of a clear, philosophically-grounded programme, imposed by a legitimate political authority accountable not to the political mob of the moment but to the principles of moral philosophy. Thus despite his location in the enlightenment century, it is not clear to me whether Smith regarded democracy as a good way to install “statesmen” in government – the platonic tradition, after all, distrusted democracy because of its proneness to populism and the following of fashion, and preferred the philosopher king surrounded by “guardians”, following the dictates of philosophy to achieve the good for society. The legitimacy of the statesman, nevertheless, rested ultimately upon effective performance of the role of protecting the weak against the strong, promoting the general good against the predations of private power-holders, and providing social goods that the private market would not.

The autonomy of human agency, and the inescapable force of moral intuition, subvert the idea that economics could ever be fully a “science” in the same sense as the natural sciences. It has been the attempt to escape from the resulting complications and to seek refuge in allegedly objective, law-like generalisations about markets and wealth that has supported the repeated decay of economics into dogma. Post-modern critics of economics, who correctly identify the dogmatic tendency of a large part of the profession to give unwarranted moral authority to market outcomes, and thereby become apologists for the status quo – that is, for actually-existing capitalism - are on the same ground as Marx a century and a half previously, but too often falling into the same trap of lumping together the great intellectual tradition of economics with its crop of ethically-illiterate hangers-on. (Marx subsequently remedied this by spending years in the British Museum reading up on the tradition.)

My point here is that good economics always requires a dialectical interplay between the scientific and the moral dimensions. Technical and mathematical brilliance cannot give satisfactory answers to moral questions. Unfortunately, however, they are profoundly seductive as a way of escaping from confronting moral dilemmas. The economics profession has gone through cycles of (i) retreat from moral questions and fascination with technical analytics, leading to (ii) dogmatic periods when money and markets are deified and deviant views become seen and treated as heresies, followed by (iii) revivals of overall

6 Marx, *Theses on Feuerbach*.

vision as moral challenges became inescapable. In the nineteenth century the deification of markets and capitalism made socialists the outcasts, subject to increasingly bitter attack from the professional mainstream. Eventually, however, the mainstream had to come up with an intellectually coherent response to neutralise Marx's suggestion that the manifest injustices of early industrial capitalism could and would be overcome eventually by a redistribution of physical capital itself into the hands of the working class.

That response was neoclassical economics which argued that wages and profits were 'fair' returns to labour and capital on the basis of their marginal products, but that the total product (what Pigou later called the National Dividend[7]) once it had been produced could be redistributed from rich to poor individuals, facing economics with the task of working out whether this could be done without causing the product itself to fall, or at least without reducing the product sufficiently to make the redistribution exercise itself null and void. This was a subject with which classical utilitarianism seemed well adapted, and all the original neoclassicals were utilitarian in their approach.

The resulting conservative-reformist approach was epitomised by Alfred Marshall, the leading figure in economics at the turn of the twentieth century, whose pragmatic and politically-aware *Principles of Economics* then became the main textbook for decades from the 1890s to the 1930s. As the redistributive implications of neoclassical utilitarianism became increasingly apparent, however, pro-business apologetic reflexes cranked gradually back into life. So starting in the 1930s, a trend away from acknowledging any moral accountability for economics set in. This started apparently innocently, with the intellectual rejection of classical utilitarianism by Robbins and Hicks. It was then reinforced by the widespread adoption in the 1950s and 1960s of logical positivism as a methodology that celebrated the separation of "normative" concerns from the "positive", supposedly objective, focus of technical economics. Finally in the 1980s and 1990s mainstream economics became dominated by pro-corporate apologetics as the "market efficiency hypothesis" hardened into dogma, Keynesian and welfare-state policies came to be stigmatised as heresies, and the economics journals overflowed with complex advanced mathematics devoid of ethical insights and obsessed with so-called "efficiency". The resulting moral bankruptcy of a large part of economic writing became manifest in the profession's failure to grapple with worsening income and wealth distribution and increasing crisis-proneness of the financial sector and the market economies since the 1980s; and in the emptiness and sloganeering of political discourse around privatisation, union-busting, and the attempted euthanasia of the welfare state. There are some hopeful signs (but not more than that) of a revival of moral thinking and a return of commonsense intuition among economists; in this connection the work of Sen is pivotal.

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7 A. Pigou, *Economics of Welfare*, London: Macmillan, 1920.

The trimumvirate of Smith, Marshall and Sen, over the span of 250 years, seem to me to epitomise the best of the economics tradition and to provide its moral compass, or perhaps moral anchor. So let me say some more about them.

Alfred Marshall defined "Political Economy or Economics" as "a study of mankind in the ordinary business of life"[8]. Economics, he said, [9]

> examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.
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> Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man. For man's character has been moulded by his everyday work, and by the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals; the two great forming agencies of the world's history have been the religious and the economic…..

This dividing line which Marshall drew between the realm of economic forces in relation to material welfare and that of religious or moral forces in driving other aspects of human history clearly meant that economics could never claim to be a complete science of society, because it was obliged to treat moral intuitions, "human nature", and the identification of what constituted "the public weal", as matters external to the material realm of wealth and poverty, industry and trade, with which economics could get to grips using "the measuring-rod of money". Once the boundaries of his subject were thus defined, Marshall could devote the remaining 750 pages of his *Principles* to applying reason, mathematics, and empirical observation to studying the ordinary business of life – but aways with an eye out for the ultimate goal of improving society's wellbeing.

In thus separating economic reasoning and analysis from the realm of moral discourse, while relying on the later to provide some external discipline on the former, Marshall was adopting essentially the same intellectual strategy as that of Adam Smith more than a century before. For Smith as for Marshall, moral sentiments and ideas were an essential part of human nature, which could not be ignored as an influence on human action and could not be accounted for within the terms of economic analysis. This had not prevented Smith from engaging in systematic observation and analysis of the way in which moral sentiments and intuitions played out in human life; his first major work, *Theory of Moral Sentiments*, undertook precisely such an analysis. *Moral Sentiments* took as given that moral sentiments were embedded in human nature as a basic datum - that moral notions about what constituted the good for humankind stood aside from the mechanics of the marketplace, and originated elsewhere. Smith appealed to the idea of an impartial,

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8 Marshall, A., *Principles of Economics* Macmillan and Co, 1890 p.1.

9 Ibid. pp.1-2.

disinterested observer of human behaviour, sitting on the shoulder (as it were) of each person and delivering moral judgments which could be intuitively understood by individuals, and used by them to guide their behaviour. Thus each individual was constantly motivated simultaneously by self interest and by sympathy. Self-interest played out as the basis of economic order in determining prices, arranging the division of labour, and allocating material resources to their best uses. Sympathy played out in the ability of individuals to empathise with and respond to the needs of others.

But exercise of individual self-interest (however tempered by sympathy), could deliver pathological rather than desirable outcomes. Smith never hesitated to identify cases where human shortcomings caused society to run off the rails of the public good. Famously he excoriated the kings and princes of Europe for their ineptitude, greed, adherence to counterproductive policies such as mercantilism, and proneness to flattery and fashion. Equally famously he warned against allowing any individual to acquire enough power to manipulate the competitive marketplace, especially by forming anti-competitive coalitions[10]:

> People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.

Clearly Smith held to a clear platonic vision of the good for humankind, ideally embodied in the figure of the "statesman" who could bring policy to bear against such anti-social business combinations; and equally clearly he saw a role for the disinterested commentator – the philosopher – in bringing failures of markets and of policy to public notice. Very firmly he did not think that the failings of princes could be sorted out by putting business people in charge of government[11]:

> The capricious ambition of kings and ministers has not, during the present and the preceding century, been more fatal to the repose of Europe than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolizing spirit of merchants and manufacturers, <u>who neither are, nor ought to be, the rulers of mankind</u>, though it cannot perhaps be corrected may very easily be prevented from disturbing the tranquillity of anybody but themselves

Smith himself felt able to stand securely on the ground of the disinterested observer, analysing how natural order played out through the operation of markets while at the same time bringing to bear moral judgments derived from the intellectual realm of philosophy, not the material realm of everyday life. What he perhaps underestimated was the

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[10] Smith, A., *Wealth of Nations*, Book IV Chapter 8.

[11] *Wealth of Nations* Book IV Chapter 3 Part II.

possibility that the propositions he derived from his economic analysis might in turn feed back to pollute the moral philosophy upon whose independent truth he relied.

A century later, however, Marshall was obliged to confront this problem. Many practitioners of economics after Smith, he said, had elevated scientific propositions about the efficiency of markets to the status of moral dogma. In the course of the nineteenth century, genuine moral intuitions had repeatedly had to drag economics back from the temptation to declare markets to be moral arbiters as well as useful mechanisms for organising daily life. The Preface to the first edition of *Principles* observed that

> The Laws of Economics are statements of tendencies expressed in the indicative mood, and not ethical precepts in the imperative. Economic laws and reasonings in fact are merely a part of the material which Conscience and Common-sense have to turn to account in solving practical problems, and in laying down rules which may be a guide in life. But ethical principles are among those <u>of which the economist has to take account</u>. [Emphasis added]

Marshall acknowledges the important role of religious belief as one channel by which perfection of humanity may be pursued, but points equally to other traditions of social reform, including socialism, which he credits with checking the drift of economists towards pro-business dogma (what Marx called ideology or capitalist apologetics - though Marx gets only three mentions in the *Principles*, all concerned with pointing out his technical errors of analysis).

Here is a sample of Marshall's reflections on the sins of nineteenth-century economists:[12]

> There is … some justice in the charges frequently brought against the English economists of the beginning of [the nineteenth] century, that they neglected to inquire with sufficient care whether a greater range might not be given to collective as opposed to individual action in social and economic affairs, and that they exaggerated the strength of competition and its rapidity of action…. These faults…. Were partly … due to the fact that economic study had again got a good deal into the hands of men whose strength lay in vigorous action rather than economic thought… (p.760)
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> … it may be true that an undue prominence is given in [nineteenth-century English economists'] writings to those facts which were of direct interest to merchants and other capitalists …..
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> … there was a certain narrowness in their work…. The same bent of mind that led our lawyers to impose English civil law in the Hindoos, led our economists to work out their theories on the tacit supposition that the world was made up of

[12] Marshall, *Principles*, 8th ed 1936, pp.761-766.

> city men[13]. And though this did little harm so long as they were treating of money and foreign trade, it led them astray as to the relations between the different industrial classes. It caused them to speak of labour as a commodity without staying to throw themselves into the point of view of the workman; and without dwelling upon the allowances to be made for his human passions, his instincts and habits, his sympathies and antipathies, his class jealousies and class adhesiveness…. They therefore attributed to the forces of supply and demand a much more mechanical and regular action than is to be found in real life… (762-3)
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> The perfectability of man had indeed been asserted by the socialists. But their views were … expressed with an extravagance that moved the contempt of the business-minded economists of the age…. The economists therefore did not trouble themselves to examine carefully any of their doctrines, and least of all their speculations as to human nature. (763)
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> But the socialists were men who had felt intensely, and who knew something about the hidden springs of human action of which the economists took no account. Buried among their wild rhapsodies were shrewd observations and pregnant suggestions from which philosophers and economists had much to learn. And gradually their influence began to tell….(764)
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> …[E]conomic reasoning is now more exact than it was… As a result, many dogmas have been destroyed which appeared to be simple only because they were loosely expressed; but which, for that very reason, served as an armoury with which partisan disputants (chiefly of the capitalist class) have equipped themselves for the fray… (766)

What were these "dogmas" that Marshall thought had been destroyed by the progress of economic thinking during the nineteenth century – much of it epitomised by the work of John Stuart Mill, another philosopher-cum-economist in the Adam Smith mould, whom Marshall greatly admired?

- Poverty is part of the natural order (the "iron law of wages")
- Free markets are always best
- Economic behaviour that is driven by altruistic rather than selfish motivations is suspect

To these we should add a fourth dogma, which was to be discredited forty years after the *Principles* by Marshall's greatest student, John Maynard Keynes

- Say's Law: market systems fully employ available resources so involuntary unemployment cannot happen

[13] By "city men" Marshall meant the particular class and type of people with whom professional economists found themselves most familiar and with whom they had the most contact. This meant, basically, the urban upper classes – bankers, merchants, the aristocracy,the political elite. (Marshall p.762).

Were Marshall alive today, I think he would be disappointed by how little economics has progressed on the big issues of human affairs, and how persistently the old dogmas have crept back into both the popular and the professional discourse of economists. But he would, I think, stick with the central programme of the *Principles*, which is to apply reasoned analysis to the business of humankind in the ordinary business of life, and in the process to seek out practical ways in which the lot of humankind – and especially the poor – can be improved. The basis for recognising what is an improvement – what increases the extent of justice and what reduces it – would still lie outside of economics, in the field of moral philosophy and in the intuitive understandings of right and wrong that motivate both "religious" and "socialist" activism, but the economist would defer to those understandings in considering how well the arrangements and processes of economic life contributed to or detracted from "wellbeing".

Interestingly, a century after Marshall another leading economist has embarked systematically on just such an exploration of justice and reason. Amartya Sen's *The Idea of Justice*[14] argues for the universality of some basic set of moral propositions that are instinctively recognised by people in diverse cultures and situations[15]:

> It is my claim … that similar – or closely linked – ideas of justice, fairness, responsibility, duty, goodness and rightness have been pursued in many different parts of the world …. And that the global presence of such reasoning is often overlooked or marginalized in the dominant traditions of contemporary Western discourse.

Sen, in common with Smith and Marshall, is not setting out to work out the design of a perfect world in which justice fully prevails. He shares with them a resigned acceptance that the real world is not susceptible of perfection, and that however much the idea of an ideal social contract may appeal in the abstract, in the concrete[16]

> what moves us, reasonably enough, is not the realization that the world falls short of being completely just – which few of us expect – but that there are clearly remediable injustices around us which we want to eliminate…. The identification of remediable injustice is not only what animates us to think about justice and injustice, it is also central … to the theory of justice.

Marshall's opening chapter of his *Principles* offers a very similar account when he considers why economists should be seized with the urgency of "the problem of poverty". "May we not outgrow the belief that poverty is necessary?", he asks[17]:

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14 Harvard University Press 2009.
15 Sen, p.xiv.
16 Sen p.vii.
17 Marshall p.3-4.

> Now we are setting ourselves seriously to inquire whether it is necessary that there should be any so-called 'lower classes' at all: that is, whether there need be large numbers of people doomed from their birth to hard work in order to provide for others the requisites of a refined and cultured life while they themelves are prevented by their poverty and toil from having any share or part in that life. The hope that poverty and ignorance may gradually be extinguished derives much support from the steady progress of the working classes during the nineteenth century…. This progress has done more than anything to give practical interest to the question whether it is really impossible that all should start in the world with a fair chance of leading a cultured life, free from the pains of poverty and the stagnating influences of excessive mechanical toil… <u>This question cannot be fully answered by economic science</u>. For the answer depends partly on the moral and political capabilities of human nature, and on these matters the economist has no special means of information … But the answer depends in great measure upon facts and inferences, which are within the province of economics; and this is what gives to economic studies their chief and their highest interest…(pp.3-4)

And further on:[18]

> No doubt men, even now, are capable of much more unselfish service than they generally render: and the supreme aim of the economist is to discover how this latent social asset can be developed most quickly, and turned to account most wisely.

What we see in Smith in the eighteenth century, Marshall at the turn of the twentieth, and Sen at the beginning of the twenty-first, is a clear moral compass - or anchor (these are twin images, each with its element of intuitive meaning) - that guided their work as economists and determined which were the areas in which they felt most impelled to understand how improvement of the human condition might be achieved. They were all, in Sen's words, motivated by the perception of "remediable injustice". The same is true of Keynes in the context of the 1930s Depression, with his view of mass unemployment as an injustice that could be addressed by monetary and fiscal policies attuned to achieving and maintaining full employment.

Dogma was anathema to all of these, and all of them saw that to combat dogma what is required is a combination of careful analytic reasoning and moral intuitions about good versus bad and right versus wrong – for without those intuitions, economic reasoning by itself cannot evaluate whether any policy change of market development has improved the human condition or the reverse.

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[18] Marshall p.9.

Reason, Sen makes clear, is not the means of discovering what injustice is. It is the means of working out how best to "pursue... the idea of justice or any other notion of social relevance, such as identity"[19] And he characterises dogma as bad reasoning:

> [P]rejudices typically ride on the back of some kind of reasoning – weak and arbitrary though it might be. Indeed, even very dogmatic persons tend to have some kinds of reasons, possibly very crude ones, in support of their dogmas … Unreason is mostly not the practice of doing without reasoning altogether, but of relying on very primitive and very defective reasoning. There is hope in this, since bad reasoning can be confronted by better reasoning

Just as dogmas are most easily recognised by those opposed to them, so heresies are in the eye of the beholder. The perception that some proposition is heretical requires prior adherence to an opposed proposition that is held as absolute, unquestionable truth. If the accusation of heresy can be made to stick with a large enough group of adherents to any dogma, then heretics can be cast out or otherwise suppressed without appeal to careful further reasoning; the possibility of what Sen calls "reasoned engagement" is lost. Economic discourse in New Zealand, as in much of the rest of the Western world in the past couple of decades, has been notable for the recent decline of reasoned engagement and the increased resort to dogmatic arguments. Both in academic economics and in public policy circles the tendency has increasingly been to "win" arguments by assertion and refusal to engage, rather than by carefully picking through the logic and maintaining a clear eye on the moral compass. So there is contemporary interest in noticing where the economics profession has slid away from the clear course set by Smith, John Stuart Mill, Marshall, Keynes, and other greats, and into dogma – usually, as Marshall noted, "pro-business" dogma, though the political Left has on occasion been guilty of its own unreasoning adherence to ideology over reason and moral intuition.

Above all, the great divide in contemporary economics is the gulf that has opened up between the neoliberal ascendancy and its critics.

There have been two especially spectacular issues over which neoliberal adherents have engaged in what seems to me a dogma-versus-heresy mode of thinking and acting, rather than reasoned engagement. One of these is in macroeconomics, where the Keynesian vision of the state using its unique powers to stabilise output and employment around a full-employment level became subject over the past thirty years to a massive smear campaign from what were originally called "new classical" economists with Right-wing political views, strong pro-business leanings, market fundamentalist instincts, and a rabid distrust of any and all state activism. One of the leading lights in this school, Professor Ed Prescott of

[19] Sen p.xviii.

Minnesota, used to boast that not only did he make no mention of Keynes in his lectures and papers, but that he forbade his students to read Keynes or Keynesian writings.

The other issue is in the vexed area of income and wealth distribution, where the vision put forward in Marshall and Pigou of advancing social wellbeing both by directly lifting the lowest-income groups out of poverty and by wide-ranging redistribution of income from rich to poor was subsequently rejected as unscientific because of the inherent impossibility of an absolutely rigorous absolute measurement of utility in a way that would enable comparisons and aggregation across individuals. Subsequently, mainstream economics pushed issues of income distribution into a ghetto labelled "normative economics" which was treated separately from supposedly objective "positive economics", and as the final step in the slide to dogma the self-declared inability of economic theory to say anything positive about income distribution was converted into the claim that no legitimate criticism could be entertained by economists when income and wealth were redistributed from the poor to the rich. This dogma is now enshrined in New Zealand's Commerce Act procedures which use a so-called "public benefit test" to evaluate mergers and takeovers, and potentially predatory behaviour by firms, on the basis that there is no loss to national welfare when a giant corporation extracts monopoly profits by gouging poor consumers – price gouging *per se* is perfectly legal in New Zealand.[20]

In the cases of both Keynesian macroeconomics and Pigou's welfare economics, the process by which commonsense intuition was overturned by counter-intuitive but pro-'business' dogma was one which would be methodologically appropriate in the natural sciences but was toxic when applied in the would-be social sciences. In both cases, conservative thinkers opposed to the political programmes which Keynes, Marshall and Pigou considered to be entailed by moral intuition insisted that the theories be formulated in rigorous quantifiable terms that could be analysed mathematically for consistency and fitted to hard data. Having shown that intuitive judgments of right and wrong good and bad, effective and ineffective, could not easily be reduced to simple mechanical formulae, the conservative caucus then put forward its own research programme whose superiority was said to rest on its greater "rigour" and objectivity. The new rigorous models were then worked up to a high level of sophistication devoid of intuitive judgements about social wellbeing, after which (the ideological phase of the process) they were sprung upon the wider public and the policy community with loud declarations that they could provide a "sound" foundation for policy and therefore could resolve the moral problems that face any policymaker. (In present-day New Zealand policy discourse this is often dressed up as the elimination of "multiple objectives" in pursuit of "efficiency".)

In macroeconomics that meant elevating individual utility-maximisation under perfect competition to central status as the foundation upon which macro-models were built, then

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[20] Geoff Bertram, "What's Wrong with New Zealand's Public Benefits Test?", *New Zealand Economic Papers* 38, 2, (December 2004) pp.265-277.

pointing out that with everyone maximising under the assumption of perfect competition, the only theoretical reason unemployment could occur was either very temporarily due to random short-run fluctuations in aggregate output, or on a longer timescale if workers were unwilling to work. Hence actual markets should be assumed fully efficient, their outcomes should be treated as optimal, government intervention should be withheld, and regulation of economic activity should be minimised.

In microeconomics the conservative position first noted the impossibility of precisely measuring utility, followed this with an assertion that no scientifically meaningful statement could therefore be made about whether changes in distribution were good or bad, then progressively over subsequent decades chipped away at the intuitive sense that progressive tax and transfer arrangements were self-evidently piecemeal improvements in social wellbeing, and finally asserted with scientific certainty that since no economic judgment of income redistribution was possible, there could be no legitimate policy case made for it. One implication is that gouging of monopolistic profits from consumers by large corporates has no welfare implications whatever provided only that both parties are members of the same national community. Hence restraint on monopolistic behaviour was deprived of economic legitimacy, and the new economic dogmas were deployed effectively to discredit and ridicule the advocates of regulation.

In both macro and micro cases, the same pathology is evident. The insistence on complete, rigorous logical consistency of a theory that makes perfect sense in physics, chemistry or biology as a necessary condition for securing scientific status becomes toxic in social analysis if it is used to suppress or sideline the moral intuitions possessed by ordinary people in real-world settings. Excessive pursuit of rigour or logic can become a smokescreen behind which economics can drift – or be pushed by groups with an ideological agenda – far from its original close synergy with moral philosophy.
And the other discipline of “hard science”, namely consistency with experimental and field observations, binds far less effectively in the social sciences because of the fluid and changeable character of society itself and its human components, and the ability of human individuals and groups to exercise agency in constructing or influencing their surroundings.

The original utilitarian attempt to argue for redistributive policies on the basis of utilitarian calculus having been successfully euthanased by the purveyors of absolutist rigour and so-called non-commensurability, there has recently been a revival of interest in Marshall’s basic-needs case for redistributing income, namely that provision of a minimum set of material goods and services is required to enable the poor to live a complete life. Leading the charge on this from today is Amartya Sen, who frames the issue in terms of human capabilities. In Part II of his 2009 book, Sen first launches a frontal assault on the non-commensurability argument:[21]

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[21] A. Sen, *The Idea of Justice* p.241.

… there is no general impossibility of making choices over combinations of diverse objects. Making choices with non-commensurable rewards is like speaking prose. It is,in general, not particularly hard to speak in prose … The present of non-commensurable results only indicates that the choice-decisions will not be trivial (reducible just to counting what is 'more' and what is 'less) but it does not indicate that it is impossible – or even that it must be particularly difficult.

The need, Sen says, is for "public reasoning" in place of bean-counting:

The connection between public reasoning and the choice and weighting of capabilities in social assessment is important to emphasise. It also points to the absurdity of the argument that is sometimes presented, which claims that the capability approach would be usable – and 'operational' – only if it comes with a set of 'given' weights on the distinct functionings in some fixed list of relevant capabilities. The search for given, predetermined weights is not only conceptually ungrounded, but it also overlooks the fact that the valuations and weights to be used may reasonably be influenced by our own continued scrutiny and by the reach of public discussion.

In other words, a cost benefit assessment of a policy cannot be conducted as an <u>inpu</u>t to public debate, because the numerical cost-benefit outcome under a weighting scheme is, and should be seen as, the <u>outcome</u> of that debate. (This issue arises in New Zealand policymaking in the context of the misnamed Regulatory Standards Bill which is back before this parliamentary session at the urging of the ACT party[22].)

To close with a small coda about the inadequacy of the measuring rod of money, and hence of the modern concept of Gross Domestc product measured at market prices, it is noteworthy that Marshall, who originated the "measuring rod of money" idea, was clear about its limitations. "There remains", he said[23]

Another class of considerations which are apt t be overlooked in estimating the dependence of wellbeing upon material [money] wealth. Not only does a person's happiness often depend more on his own physical, mental and moral health than on his external conditions: but even among these conditions many that are of chief importance for his real happiness are apt to be omitted from an inventory of his wealth…,[These include] elements of collective wealth which are often omitted from the reckoning of individual wealth; but which become important when we compare different parts of the modern civilised world..

22 In this connection see Geoff Bertram, 'Deregulatory Irresponsibility, Takings, Transfers and Transcendental Institutionalism', *Policy Quarterly* 6(2): 48-53, May 2010.

23 Marshall, *Picniples*, pp.133-134.

Thus it is interesting to note the recent comparative work of writers such as Wilkinson and Pickett[24] and Charles Kenny[25] who point out that the comparative evidence points strongly to non-monetary, non-individual elements of human wellbeing as of fundamental importance, independent of levels of GDP per capita.

[24] *The Spirit Level: Why More Equal Societies Almost Always Do Better* Allen Lane, 2009

[25] *Getting Better: Why Global Development is succeedin and how we can improve the world even more,* New York: Basic Books 2011.