The Rise of the Market

Critical Essays on the Political Economy of Neo-Liberalism

Edited by
Philip Arestis
and
Malcolm Sawyer

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Edited by

Philip Arestis

University of Cambridge, UK and
Levy Economics Institute, USA

Malcolm Sawyer

University of Leeds, UK

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Contents

Contributors

Philip Arestis, University of Cambridge, UK
Ben Fine, School of Oriental and African Studies, University of London
James Forder, Balliol College, Oxford
Michael C. Howard, Department of Economics, University of Waterloo
George Katiforis, Member of the European Parliament
John E. King, Department of Economics and Finance, La Trobe University
Malcolm Sawyer, Leeds University Business School, University of Leeds
Euclid Tsakalotos, Department of International and European Economic Studies, Athens University of Economics and Business

Preface

This book of essays, which are revised and updated versions of contributions which have already appeared in the *International Papers in Political Economy*, seek to contribute to a development of political economy and the analysis of neo-liberalism. We wish to thank all the contributors to this volume and to the issues of *International Papers in Political Economy*. Without their support this and a companion volume, also based on *International Papers in Political Economy*, would not have been possible. Edward Elgar and Dymphna Evans have been supportive publishers in this and other ventures, and we are grateful to them and their staff for their support.

1. Introduction

Philip Arestis and Malcolm Sawyer

The past two decades or so have witnessed the coming to dominance of neo-liberalism, its influence on economic policy and the promotion of the expansion of the market into new areas of the economy. The essays in this volume, written from the perspective of political economy, address many issues raised by the rise of neo-liberalism.

In Chapter 2 Euclid Tsakalotos focuses on the political economy of the expansion of the market. As he notes, sceptics of the market and the use of the market mechanism have, in recent years, been on the defensive: the argument has been put forward and advanced in many areas that markets will bring about significant efficiency gains. Tsakalotos is concerned with what kinds of argument should carry weight in any discussion about the scope of the market. He argues that, in most cases for both proponents and opponents of an expansion of the scope of the market, there are important ethical and political economy issues that need to be engaged with and which are all too often ignored.

The use of the market (or market-type processes within the public sector) is often justified along the following lines: expansion of the use of the market will increase efficiency, and then any issues of distribution (of income and so on) – or other ethical considerations – can be dealt with separately with other appropriate policy measures. Indeed, since efficiency gains imply that more preferences are satisfied, the implication is that this can but be considered an incontestable good. It is this argument that is the primary target of Tsakalotos's contribution.

He argues that the market system is a complex phenomenon, which encompasses far more than a system of rules and institutions for the allocation of goods and services. It is for this reason that an expansion of the market generally entails much more than a change in efficiency, where efficiency is defined as the best possible satisfaction of existing preferences. For institutions, such as the market, do not merely influence the relationship between things – that is goods and services – but the nature of individuals, including their preferences and their relationships with others.

Michael Howard and John King in Chapter 3 are also concerned with issues of the expansion of the market, and they seek to provide a materialist explanation of the rise of neo-liberalism in advanced capitalist economies. They seek to explain neo-liberalism in a technologically determinist manner, although not one which is primarily derived from the 'new economy' of information technology. Their approach also contrasts with other materialist accounts of the rise of neo-liberalism which view it as a ruling class reaction to the upsurge of workers' militancy, the retardation of productivity growth and the decline of profitability that began in the late 1960s. The triumph of neo-liberalism is seen to represent a comprehensive refutation of one of the most important predictions made by Marxist theoreticians over the course of the previous century, which was also widely accepted by non-Marxists: that is, that the technical and social development of capitalism was inherently market-eradicating.

Neo-liberalism has involved commercialization or commodification, with the boundaries between what is and what is not capitalist production shifting. The notion of capital has been extended to encompass human capital and social capital. In Chapter 4, entitled 'From Bourdieu to Becker: economics confronts the social sciences', Ben Fine's first purpose is to examine how diverse analytical traditions have been brought together around the notion of social capital. He argues that the structure and movement of capital itself promotes ambiguity and illusion in the way in which it is perceived. Fine then applies these insights to the work of Pierre Bourdieu and his understanding of social capital, and then undertakes a similar exercise for James Coleman.

The second purpose is to examine the wider use of social capital within other disciplines and sets this against the second and broader purpose of this contribution. This is to examine the extent to which, and how, economics is colonizing the other social sciences through the example of social capital. In particular, reference is made to the rapidity with which it has been applied to problems of economic development.

It is not only the market which has been spreading in an imperial fashion but also the economic analysis based on methodological individualism and rational economic behaviour. In Chapter 5, Ben Fine discusses the nature of this economic imperialism. He argues that the debate around the Kuhnian approach is useful in being able to shed light on economics imperialism. He argues that although the debate around Kuhn was drawn to the conclusion that his approach was fundamentally flawed, he still considers that it is fruitful to consider economic imperialism against the debate that Kuhn's notion inspired. He proceeds by providing an overview of the Kuhnian stance on scientific progress and then discusses some of the features of the current phase of economics imperialism. The question of revolutionary science and how there are shifts between schools of thought are discussed, leading to consideration of the question as to why schools of thought change.

One specific aspect of the growth of neo-liberalism has been the introduction and spread of central bank independence, which takes key decisions out of the hands of elected politicians and into the hands of experts. It is also based on a view that the market quickly gravitates to a supply-side equilibrium based on markets clearing. In Chapter 6, James Forder considers the political economy of central bank independence, and specifically considers the theory behind such independence, as well as evidence on the performance of independent central banks, and considers their political legitimacy. He concludes that the advocates of central bank independence have failed to advance a theoretical account of the benefits of independence, have not been able to provide evidence supporting it, and have failed to make a persuasive argument that any restrictions on democratic decision-making are a price worth paying.

Forder begins by seeking to identify the arguments that have been advanced by the advocates of central bank independence. He points to the asserted neutrality of money, and the expectation that low inflation comes from central bank independence, along with claims on the existence of the natural rate of unemployment. In section 2 of his chapter, he considers the arguments for independence based on the alleged relationship between it and inflation, supported by this view of the natural rate of unemployment.

The validity of the deduction from the asserted existence of the natural rate of unemployment that there are no normative issues to be faced by monetary policy makers is challenged in section 3.

Another argument for central bank independence comes from the claim that democratic control actually results in poor policy, which is used to suggest that this particular policy area might properly be removed from democratic control. Forder argues that there is plenty of democratic theory which argues that the desirability of independence does not follow from the failings of democracy. Some proponents of central bank independence argue that certain proposals can avoid the danger of being inconsistent with democratic government by instituting some form of limit or safeguard on the central bank's independence. In section 5 Forder argues that those proposals that can properly be understood as avoiding serious concerns about democracy are also proposals for arrangements that would not be called 'independence' in the rest of the literature.

In Chapter 7, George Katiforis considers some of the relationships between two of the giants of political economy, Keynes and Marx, who differed on many things but who both saw many faults in the ways in which unfettered markets would operate. Catephores postulates that Keynes can be viewed as a bourgeois Marxist. As he says, showing that Keynes was bourgeois is a straightforward matter, but to sustain that he was Marxist appears impossible in light of Keynes' dismissal of Marx's works and his lack of references to Marx's writings. Contemporary Marxists generally returned the feelings with a hostility to the works of Keynes. Yet Keynes could look forward to 'a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability'. (Keynes, 1972, Vol. IX p. 305).

Katiforis argues that 'the right end to begin with Keynes, as with many other great writers, is not at the end but almost right at the beginning, at the moment in life when a man of genius, on the threshold of maturity but still youthful in intent and purpose, decides to break with conventions, the hypocrisies, the moral bankruptcy, the falsehoods, the criminal devices of a whole decrepit order of things and stake his claim at changing the world'. Marx similarly was such a man: 'The philosophers have only interpreted the world in various ways; the point is to change it'. Keynes was another such philosopher, determined to change the world. Finally, the rise of neo-liberalism raises the issue of economic imperialism related to the issue of the extension of neoclassical concepts into the terrain of other social sciences.

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2. Social norms and endogenous preferences: the political economy of market expansion

Euclid Tsakalotos*

1. INTRODUCTION

Over the last twenty years, or so, sceptics of the market have been on the defensive. Whether the issue has been the international liberalization of capital controls or the introduction of 'quasi markets' in the public sector, the argument has been that markets will bring about significant efficiency gains. In terms of neoclassical economics, and liberal political theory, this gain can be understood in terms of an increased satisfaction of people's preferences and an enhanced ability of individuals to carry out whatever their own conception of the 'good' happens to be. Whether this has been the result of the increased scope of the market has, of course, not gone unchallenged. But for the purposes of this chapter I am not so much concerned with what the scope of the market should be in any particular area, but with what kinds of argument should carry weight in any discussion about the scope of the market. I want to argue that, in most cases for both proponents and opponents of an expansion of the scope of the market, there are important ethical and political economy issues that need to be engaged with and which are all too often ignored.

More specifically, I am interested in confronting a form of argument – which I find that critics of the market all too often have considerable problems responding to – that runs roughly as follows: we can expand the market, or market-type processes, for reasons of efficiency and we can deal with the issues of distribution, or whatever other ethical commitments we may have, separately from this with other appropriate measures.[1] We can call this the discourse of efficiency: first, that efficiency is a very important, if not necessarily paramount, social goal or value; and, second, that it can be considered separately from other social goals or values. Indeed, since efficiency gains imply that more preferences are satisfied, the implication is that this can only be considered an incontestable good. It is the second that is my primary target here.[2]

The essence of the argument is that the market system is a complex phenomenon which encompasses far more than a system of rules and institutions for the allocation of goods and services. It is for this reason that an expansion of the market entails, in most cases, much more than an increase – or for that matter, decrease[3] – in efficiency, where efficiency is defined as the best possible satisfaction of existing preferences. For institutions, such as the market, do not merely influence the relationship between things – that is goods and services – but the nature of individuals, including their preferences and their relationships with others. Bowles and Gintis (1987, p. 131) point this out in criticizing Lionel Robbins' well-known definition of economics as the science of the relationship between given ends and scarce means, which suggests that the economy is merely a site that produces things according to preferences, '…the economy produces people. The experience of individuals as economic actors is a major determinant of their personal capacities, attitudes, choices, interpersonal relationships, and social philosophies'. In what follows we shall be making much of the need to clarify the appropriate relationship between means and ends in economic activity, and the extent to which the methodology of neoclassical economics is singularly unhelpful in this respect.

2. MARKET AND NON-MARKET NORMS

At one level the market can be described without recourse to much institutional detail. For certain purposes, such as analysing the properties of competitive equilibrium under different assumptions, this may be a legitimate exercise, although care will always be needed in making the connection between *a priori* reasoning and empirical reality. But as Lange (1935) argued, the market model can exist under various socio-economic frameworks – the capitalist economy is not the same as the market economy and to the extent that orthodox economics is merely a theory of distribution of scarce resources between different uses, then it does not need any 'sociological' (institutional) data and is not really a social science at all. However, for the purposes of social science, when the concern may be the effects of markets in any particular economic system, it is important to be aware of the fact that the market, just like any other allocative regime, is a system of rules and institutions for the allocation of goods and services – in short the 'sociological' data can matter a great deal.

In this chapter we will be concentrating on the fact that the market is associated with certain social norms which play a crucial role in giving agents the context in which to operate. Anderson (1993, pp. 144–47) has delineated five central norms which structure market relations: impersonal;

egoistic; exclusive; want-regarding; and orientated to ‘exit’ rather than ‘voice’. The impersonal nature of markets has been stressed since at least Adam Smith, and suggests a world of asocial atomistic individuals whose only relationship with each other is through exchange in the market. In the market metaphor of the Walrasian auctioneer who ensures competitive equilibrium, agents meet only briefly to conduct trades which happen instantaneously for all goods for all times once equilibrium prices have been determined. While this is not meant to be taken literally, it does suggest a world where there is little incentive to develop long-term relationships (see Henley and Tsakalotos, 1993, pp. 25–26).[4]

Egoism suggests an individualistic calculus for welfare by each individual and is best captured by Adam Smith’s observation that with respect to tradesmen we are better advised to rely on their self-interest than their benevolence. Even if in a market individuals can have altruistic preferences, and we return to this issue later when discussing the nature of self-interest and how it is conceptualized by neoclassical economics, it is important to stress the extent to which market transactions rely on self-interest narrowly defined. As Le Grand (1992) points out in discussing the appropriateness of introducing ‘quasi-markets’ into the public provision of goods and services, suppliers need to be at least to some extent motivated by financial considerations. There is little point, he argues, in introducing elements of the market if participants don’t care about profits – market signals mobilize the self-interest of the participants, not their feelings of public responsibility.

Exclusivity refers to what economists call goods which are rivals in consumption, that is the enjoyment of the good is exclusive to the individual, in contrast to a shared good where someone’s enjoyment of it does not in any way reduce that of someone else. The fourth norm constitutes what most people understand as consumer sovereignty. Preferences are given and the market is a way of satisfying those given preferences. The ‘exit-voice’ analytical distinction follows from the work of Hirschman (1970). The more an economic arrangement resembles that of a pure market, the more ‘exit’ is used – one does not like the oranges from one seller and hence one goes to someone else – rather than voice, which suggests a much longer-term relationship where perhaps both the quality and price of a good are open to discussion and bargaining. While for analytical purposes we have followed Anderson’s categorization, it should be clear that often the above norms will in practice overlap and complement each other. To give just one example, the lack of social goods accentuates the impersonality of the market, as does the fact that the norm of exit dominates that of voice and that market signals are supposed to work by mobilizing the self interest of economic actors and not their sense of social responsibility.

The above constitutes an ideal type of market exchange and its associated norms.[5] Real market economies will differ significantly from the above and thus understanding economic behaviour entails recognizing the influence of a wide range of norms.[6] Firstly, not all market regimes are like the type of market presented above. While some markets, financial markets for instance, may be close to the ideal type described above,[7] others, such as certain customer markets (where firms and suppliers engage in rather more long-term and less impersonal relationships) or labour markets may be less impersonal and/or exhibit much more ‘voice’ than ‘exit’. Secondly, any real economy is made up of a mixture of allocative regimes.[8] Capitalist economies lie somewhere on a spectrum between those economies where market norms are prevalent, and more institutional economies in which the market and hierarchical firms are more integrated with other mechanisms of economic governance such as states, associations and communities (see Crouch and Streeck, 1997; Hollingsworth and Boyer, 1997).

We cannot provide here an extensive account of all the numerous norms associated with these other mechanisms of economic governance but, hopefully, a few examples will suffice. Cohen (1994) contrasts the market principle ‘I serve you because of what I can get out of doing so’ with the community principle ‘I serve you because you need my service’. Such a community principle, or norm, may be observed in what is termed gift exchange. Consider, for instance Titmuss’s (1997) account of blood giving. While both his empirical findings and his account of them have proved controversial, his overall argument has been very influential, if not always with economists. Titmuss observed that Britain had a more efficient system of blood donation than did the US, even though blood donors in the US received payment whereas the British system was almost entirely voluntary. He also observed that in Japan, the move from the British system of voluntary giving before the second World War to something like that of the US after the second World War was associated with a reduction in the amount of blood donated and in the quality of that blood. The interpretation of this evidence has been widely debated.[9] However, one plausible interpretation of this seemingly irrational behaviour[10] – why give less of something now that you are being paid for it, since you could still give, not accept the money and be precisely in the same situation as before – was that a monetary value on blood changed the nature of the good itself. From a gift donated by a socially-concerned citizen under certain community-inspired norms, it became more like an ordinary commodity subject to market processes and norms. The implication of all this seems to be, not only that the nature of a good can depend on the institutional set-up, but also the nature of moral commitment itself (Hausman and McPherson, 1996, p. 216).

There is much evidence to suggest that economic associations do not operate exclusively under the market norm of self-interest. As O’Neill (1998, pp. 169–70) argues:

> Some do exist simply to pursue some narrowly defined interest. However, others exist to pursue some good or 'interest' in the wide sense of the term: consider the wide variety of natural history, conservation and environmental associations. Still others aim both at particular interests and some good: professional associations, even when they are conspiracies against the public, are not merely conspiracies as the public choice theorist supposes – they also have an interest in the goods the profession serves, be it medicine, education, philosophy, economics, nature conservation or whatever.

Streeck (1997, pp. 205–6), in an argument that relies heavily on the importance to organizations of 'imitation, social norms, or legal requirements', usefully contrasts in this respect the 'culture of rational accounting'[11] (where financial and accounting experts are highly valued) that predominates in investment decisions in British firms with that of 'technological perfectionism' (where engineers are more valued) which is more prevalent in Germany. He discusses research that suggests that in certain German manufacturing firms profits are only an indirect goal and argues that the obsession with the product itself, and its quality, may be one source of Germany's superior economic performance in manufacturing industry. For Streeck, then, limits to the market norm of self-interest – or what he calls rational voluntarism – can have beneficial effects on economic performance. Whatever the merits of this case, what is relevant for our purposes is that market and non-market norms may lead to very different outcomes.

Finally, state economic governance may also come with a different set of norms. For instance, while many economists nowadays often assume that nationalized industries should merely follow normal market norms, especially profitability, this is a position that has always been highly controversial. Nove (1973; 1983) is just one example of an economist who, although he accepted that profitability considerations could not be ignored with respect to nationalized industries, also argued that this would never be satisfactory by itself. He repeatedly argued that to take into account important social external effects '…nationalised monopolies cannot function "efficiently" unless their performance is related to *duty, purpose, function*' (Nove, 1983, p. 170, emphasis in the original). Nove was essentially suggesting that a norm of social service that was different from that which existed in the private sector should guide certain state economic activities (we are here a long way away from Adam Smith's butcher) and indeed stressed the need for managers to be trained in the ethics of public service.[12] While this approach of Nove is hardly a dominant one in the current ideological climate, it is also not the case that in many areas of economic state activity market norms rule the roost at the expense of all others.

3. NORMS AND RATIONALITY

We now have some important ingredients necessary to understand why an expansion of the market will be about more than simply the efficient satisfaction of preferences. Any society will consist of a mixture of allocative regimes with different norms attached to them. Changing the balance in any society, say by increasing the weight of the market with respect to state/communal allocation, will therefore also change the norms that dominate that society. As Anderson (1993, p. 145) herself argues: 'Every extension of the market thus represents an extension of the domain of egoism, where each party defines and satisfies her interests independent of the others'. The same, of course, could be argued for the other market norms delineated by Anderson. This will, in turn, influence how people see themselves, how they relate to others and indeed their preferences broadly defined to include values, commitments and, more generally, how they construe any situation.[13]

For as Sunstein (1997, p. 54) points out, norms in general provide the context of rationality. He further argues that it is very difficult to make sense of the economists' separation of rationality from social norms, or even the conception of a pure rationality with social norms as constraints for 'a norm-free conception of rationality would have to depend on a conception of what people's rational "interests" are in a social vacuum. Since people never act in a social vacuum, such a conception would not be intelligible'. Norms provide the context of rationality in part because they influence both means and ends. Sunstein gives the example that under a different set of norms, picking up litter can be considered either as a cost or as a benefit. Streeck (1997, p. 198), in defending his conception of 'beneficial constraints' as opposed to allowing economic transactions to be dominated by 'rational voluntarism', argues that similar considerations may hold at the economy-wide level:

> … efficiency is to an important extent conditional on the effective enforcement of social constraints … the notion of beneficial constraint implies that there is no such thing as a self-sufficiently 'rational', efficient economy apart from and outside society, into which the latter may or may not decide to intervene, and that how 'rational' an economy is depends on the social institutions within which it is enclosed.

In a similar vein, Hirschman (1985), in discussing whether to contribute one's time and effort to a political party or charity, that is to exercise voice, argues that economists do not properly calculate the costs and benefits of such action. For economists, the benefits involve only the ends, that is the desired change in policy which participation may bring about. The actual time and effort of the activity itself, however, constitutes a cost to the individual. But this may be to misunderstand individual participation in such activities: rather than being a cost, the activity itself (the means of obtaining the desired policy change) may actually be a benefit, helping to define the individual as a citizen. This of course allows for the possibility of non-instrumental activity: 'I would add that non-instrumental action in general makes one feel more human. Such action can then be considered, in economic terms, as an *investment in individual and group identity*' (Hirschman, 1985, p. 14, emphasis in the original).[14] And the argument of this chapter is that the extent to which people will in fact invest in non-instrumental behaviour will be influenced by societal norms.

This blurring of means and ends is also essential to understanding what Stewart (1995) has called the 'Totts effect'. This refers to a literary character in one of Jack London's stories; Professor Drummond, a sociologist, who, in order to advance his academic career, decides to spend time living in a working class area and following the activities of trade unionists there. Slowly, however, he finds himself being drawn into the values of that society and moving further from the values of his own academic middle-class environment, with the consequences that his behaviour is modified. Indeed, he finally changes completely, adopting his other personality as the trade union leader Bill Totts. In short, the means he chose for advancement of his career (a decision that can be understood in terms of instrumental rationality) led him to change the ends/goals in his life, and the reason why this occurs is precisely because of his exposure to a different regime, that is to a different set of norms. Take a more concrete proposal, namely to increase the scope of the market in the welfare state in order to make it more efficient. This may be an instrumental choice where we know the ends and are discussing the means by which those ends can be best satisfied. The 'Totts effect', however, suggests the possibility that the means chosen may eventually affect the ends themselves and thus 'the seemingly instrumental policy recommendation of a market solution inevitably carries a value judgement beyond the merely instrumental' (Stewart, 1995, p. 69). So, of course, does a non-market institutional policy recommendation. Lindbeck (1995), one of the few orthodox economists to have entertained the idea of endogenous preferences, has argued that the welfare state may have strong disincentives effects, even if it takes time for the 'habits, social norms, attitudes, and ethics' associated with the welfare state to replace market norms.[15]

Thus the context affects the meaning of an action which, in turn, affects the rationality of that action. Indeed there is much evidence to support this contention. Bowles (1998) provides a review of the evidence on many of the arguments made above. We cannot hope to do justice to all this evidence here, but rather provide some examples by way of illustration. Thus, for instance, there is evidence that an individual's contribution to public good games and cooperation in prisoner dilemma games depends very much, as we have been arguing, on the context of the game.[16] That is, the more the environment of the game resembles an impersonal competitive market, the more we get the type of results that economists would expect from agents inspired by market norms and the less we get ‘other-regarding’ behaviour. Additionally, there is evidence that economic institutions may shape preferences by influencing the tasks which we perform as in the ‘Totts effect’. Bowles also makes another observation which is important for our purposes. That is, since most of these experiments are on the same subject pool, the argument presented is not that markets make individuals more individualistic or self-regarding but rather that they evoke self-regarding behaviour from individuals’ preference repertoire.[17] Such a conception allows us to bypass any debate on whether humans are basically self-interested or cooperative by nature.

The above considerations explain to a large extent the reason why people contribute more to public goods, or to collective goods, and free-ride far less than would be predicted if they were solely motivated by market norms. Thus, many of the paradoxes of economics, such as the paradox of voting (why vote when this has a cost and the probability that your vote will make the difference is almost zero), are easily resolved when we see that people have other than market norms. A vote may not be an instrumental choice of an isolated individual at all.[18] Voting may be the result of expressive behaviour signifying to the individual and to others what is entailed in civic duty. In other words, the act of voting is constitutive of an individual as a citizen.[19] Again the issue is not one of rationality in some abstract sense.

Now economists have a number of possible responses to the above. On the one hand, they are very clever at thinking up stories which suggest that any action – however other-regarding, or non-instrumental, it may seem at first sight – is in fact the result of self-interested behaviour. But, of course, the existence of such stories does not in any way prove that the best description of the action is in fact that it is the result of self-interest. To go from one statement to another seems a logical non sequitur of a rather obvious kind. It could be argued that the origins of social norms, that, say, encourage voting or participation in charitable organizations, lie in self-interest, but it is important that this be demonstrated rather than simply assumed (see Hausman and McPherson, 1996, pp. 56–57) and it is unlikely to be the case for all norms.[20] Nothing in the above is meant to imply that self-interest is not important in human motivation. As a number of analysts have recently been arguing, the truth may be nearer to the contention that *homo economicus* is undersocialized and that *homo sociologicus* is oversocialized (see Granovetter, 1985; Bowles, 1998).

On the other hand, economists could argue that voters merely have a preference for voting (or more generally for participation), that is they get satisfaction from voting. Such manoeuvres are, however, not convincing:

> because they replace the puzzle of why people vote, for example, when it is costly to do so, with the assertion that voting is not really costly because people like to do it. This sort of explanation can only weaken the research programme of economics by denying that there is a problem for it to explain. (Stewart, 1995, p. 65)

The danger is that, as we shall see below, in trying to explain everything within one framework, nothing is explained.

The above two responses are slightly different and it will be of some help to the clarity of the argument if we present a small digression on the nature of the self-interest assumption in economics.[21] To take the first response first: in most of welfare economics and public choice, areas of economics which usually have strong normative implications, self-interest is assumed in the common understanding of that term – that is selfish behaviour. Now this may be defended in terms of empirical reality, that is to say for most purposes the self-interested assumption is a close enough approximation to economic behaviour in practice.[22] This as we have seen is an eminently disputable claim – we have argued that market norms sit aside in any real economy with a whole host of other norms and we have referred to evidence that suggests that the extent of self-interested behaviour is highly dependent on the context. Indeed critics of economics' over-reliance on the self-interested assumption point out the extent to which market economies rely on these other norms of benevolence, trust, public spiritedness and so on.[23]

In the second response, self-interest is being used in the tautological sense of standard utility theory and rational choice: 'It is, after all, a truism that to know what you or anybody else wants, see what you or anyone else chooses, or would choose given suitable options' (Blackburn, 1998, p. 163). When economists are challenged on the empirical validity of the self-interested assumption, they often fall back on this approach – after all anything can be put in a utility function: hence a preference for voting, altruistic preferences and so on can be just as good at maximizing expected utility as free-riding, and not voting, or having no altruistic preferences. But this retreat from self-interest in its common-sense meaning to a tautological one comes with a large cost. Not much mileage can be made from such a standpoint – no predictions can be made since nothing the agent does can in any way be held to be inconsistent.

Blackburn nicely illustrates the point being made here by discussing what we can, and cannot, infer from game theory and such well-known games as the prisoner's dilemma and the centipede. As usually interpreted, in these games it is rational not to cooperate and for this reason we get suboptimal results for the players. Blackburn argues that the word 'rational' is being misused here, for as in the argument of Sunstein above what is rational to do depends on the context. If one of the prisoners knows the payoff matrix (in terms of the number of years to be spent in prison), it is not irrational still to cooperate if she could not live with herself if the other prisoner got a lengthy jail sentence while she was free. As Barry[24] argues:

> The equation of rationality with the efficient pursuit of self-interest is … pure assertion. It can therefore fitly be opposed by a counter-assertion, namely, that it is equally rational to care about what can be defended impartially…The virtual unanimous concurrence of the human race in caring about the defensibility of action in a way that does not simply appeal to power is a highly relevant supporting consideration … Until somebody produces more than an argument by definitional fiat for the equation of rationality and self-interest we can safely continue to deny it …

Nor of course is it irrational to confess if such considerations do not hold. When self-interest is defined as anything in the utility function then one just cannot predict what it is rational to do – anything goes and this is, of course, why in the experimental evidence, discussed above, of how people actually respond in prisoner dilemma games there is a wide variety of responses.[25] Now game theorists could respond by saying that Blackburn is making too much of the game – that all the preferences are reflected in the payoff matrix and there cannot be other considerations added after these are known. In this case the assumption of self-interest is not in the tautological sense but in its more usual lay sense (since now all that the prisoners care about is their own time in prison). But in this case the suboptimal results of the games are in no way paradoxical. As Blackburn (1998, p. 175) concludes with respect to the lack of cooperation in the centipede game:[26]

> It would be as if Eve [one of the players along with Adam] had already posted a notice saying that under no circumstances will she ever help with Adam's harvest. And then, of course, they stay impoverished at the baseline. People might post such notices, just as real neigbours do, but not because they are especially 'rational'. They post them because they are jealous and fearful, or too short-sighted to see beyond this year's possibility of loss, too bound up with the immediate future to let the prospect of increasing prosperity in the distant future lure them.

So economists who are considering the effects of an expansion in the scope of the market by relying on the assumption of self-interest are faced with a dilemma. If they stick to the self-interest assumption in the tautological sense then they are, so we have argued, unlikely to be able to make any substantial predictions or recommendations. On the other hand, if they intend self-interest to be understood in its narrower sense (selfish behaviour) then they are open to the criticism that their approach is one-sided and ignores the possibility of the existence of behaviour based on very different motivations. But matters may be more serious yet. For in the latter case it could be argued that economics was putting at risk its claim to constitute a value-free science.

For as Sartre has said '*une technique implique toujours une metaphysique*'. Thus it has been suggested that welfare economics, for instance, by assuming individualism and instrumental rationality, may actually be promoting these two assumptions as values. Taylor (1985, p. 103), for instance, has argued that this is particularly the case when economic methodology is employed to understand political behaviour. Such approaches:

> … achieve not accuracy of description of political behaviour in general, but rather they offer one way of conceiving what it is to act politically, and therefore one way of shaping this action. Rather than being theories of how things always operate, they actually end up strengthening one way of acting over others.

Thus Taylor argues that what has become known as 'the economics of politics approach', rather than just describing the phenomenon, actually works to promote the interest-mediation conception to politics – that is, a politics which merely mediates between given interests and preferences. At the same time, it tends to marginalize rival conceptions such as the tradition of civic republicanism which conceives politics as trying to find the common interest and where it is about arguing, negotiating and convincing people, and not about taking their preferences as given. The argument here is that the moral convictions of economic agents can be influenced by the way they are analysed by social scientists:

> … generalisations about what people in fact do, will (unless written in terms of condemnation) influence what people think ought to be done. Even if what ought to be done does not follow logically from what is, it often follows psychologically. Saying that human behaviour can be modelled as if it were entirely self-interested unavoidably legitimises and fosters self-interested behaviour. (Hausman and McPherson, 1996, p. 219)[27]

To recap, orthodox economics, especially when it relies on the assumption of self-interest, in one form or another, is poorly placed to conceptualize the institutions–norms–economic behaviour nexus. For this reason when examining an institutional change, such as an increase in the scope of the market, this approach may well miss the fact that a lot more will be going on than the better, or worse, satisfaction of existing preferences. Indeed often, we have suggested, economic analysis may entail an *ex parte* intervention in favour of market solutions and market norms. Thus there is a tendency of both markets, and the theories supporting them, to marginalize rival conceptions and priorities.

4. MARKET AND NON-MARKET GOODS

Having cleared the ground with some important methodological considerations, we can now turn to give a few more concrete examples of what exactly it is that is at risk of being marginalized. We discuss first 'political goods' and certain other goods for which market norms may be inappropriate and whose understanding and valuation may depend to a certain extent on their being protected from the market. We then go on to discuss in more detail the ethical and distributional implications of expanding the scope of the market.

What Anderson (1993, p. 159) has termed 'political goods' sit uneasily beside market norms such as exclusivity, want-regarding and the dominance of 'exit' over 'voice'. One example Anderson considers is the proposal to replace direct provision by cash equivalents in education through a system of vouchers. This has been suggested primarily, but not exclusively, by economists in order to promote competition and increase efficiency (see Friedman, 1997).[28] Such a proposal accentuates the role of the market norm of 'exit', but fits less well with our understanding of education provision as in some sense a 'reflection of reasoned ideals'. The idea that education is like any other good whose supply should respond to individual preferences is not self-evident. For a start, it begs the question of whose preferences – those of students, parents, teachers, or someone else – should be satisfied. But even if this problem could be resolved, promoters of a voucher system would have to confront the arguments of those who suggest that, for a whole host of reasons, the community as a whole has a stake in the education of children.[29] That is, the question cannot be contained to one of efficiency.

The conception being marginalized here by the proposals to expand the scope of the market is the view that as citizens of a community we can and should act in a different context and with different goals than when we act in our roles as consumers (where market norms may be more appropriate). To take just one example of the differences involved between market goods and political goods, consider the question of how we interact socially with other people. In the case of political goods '…to respect a fellow citizen is to take her reasons for advocating a particular position seriously. It is to consult her judgment about political matters, to respond to it in a public forum, and to accept it if one finds her judgment superior to others.' (Anderson, 1993, pp. 158–9). A clearer contrast to the market relationship of an individual with Smith's proverbial butcher could hardly be envisaged.

The fact is that people have more than just preferences as mere tastes but also considered opinions, or values, and are able to value different goods in different ways:

> … it seems clear that a central concern for many people is precisely with how large a part should be played in their lives by the pursuit of consumer satisfactions – as compared, for instance, with the value of friendships and family relationships, engagement in political or community activities, and so on. This concern would make no sense … if human well-being and consumer-satisfaction were wholly and unarguably identical with one another. (Keat, 1994, p. 35)[30]

Critics of the market have long argued that one of its most powerful effects is to act as a radical simplifier (Bowles, 1998, pp. 89–90) which reduces considered opinions and other valuations into mere preferences (Sheffrin, 1978) or actually transforms preferences (Streeck, 1997, p. 199).

So the argument of this chapter is that an expansion of the scope of the market may affect the balance between preferences as mere tastes and valued judgements. One could speculate that at first people would keep to their values but merely lack the 'space' in which to use them, but increasingly these values would surely begin to wither from lack of use. Thus an institutional change, such as the introduction of vouchers, may lead to a 'Totts' effect. This may have indeed been the case in the largest experiment with such a system introduced in New Zealand. Gardner (2000, p. 48) reports the research of Edward Fiske and Helen Ladd, which found that:

> … within schools, and among them, there has been a decided decline in professional collegiality. Under the new regime, teachers and schools are less willing to share their 'best ideas' about teaching, the treatment of different groups and health issues, because they have, reasonably, come to view other professionals and institutions as competitors.

In short, as the scope of the market increases, the scope for democratic and collective decision-making decreases. At the limit, pluralist theorists such as Walzer argue that 'a radically *laissez faire* economy would be like a totalitarian state' with the market and money 'invading every sphere, dominating every other distributive process' (see Bellamy, 1998).

And the ethical and distributional implications of this process are unlikely to be neutral. Limiting the scope for political goods and promoting revealed preferences (tastes) as the final arbiter in distributional questions on the assumption of autonomous and self-sufficient individuals may entail that 'theorists don't question the social relations of domination that exist prior to market transactions and that condition the choices individuals make there' (Anderson, 1993, p. 165). It is hard, and in many cases misleading, to make normative judgements based on market choices as most economists are happy to do since '…choices do not suggest a contextual valuation of social goods, thus even if we want to respect people's valuations we will have to look not at but behind choices' (Sunstein, 1997, pp. 49–50).[31] It is not difficult to see that avoiding such issues, by restricting the analysis to revealed and given preferences, is unlikely to be neutral with respect to ethical questions and to the question of winners and losers for a wide range of social and political issues.[32]

Apart from political goods, there are certain other goods and cultural practices which can be corrupted by the market and market-type processes. As Bellamy (1998, pp. 170–71) argues, those who oppose radical expansion of the market do so because they:

> … fear that its ethos distorts the incentive structure and the nature of certain practices … those who complain about the way successive Conservative governments introduced the market into the provision of certain public services over the past decade and half, do so not because they spurn value for money or accountability in the delivery of these goods, but because they fear that the market's ethos will destroy the internal connection between standards of performance and the type of good being delivered by focusing the attention of service providers on the acquisition of the external good of money.

We can say first a little about how the market 'ethos', or, in our terms, the norms associated with the market, affects the incentive structure before going on to look at the nature of certain practices. Market-based reforms, including quasi-markets, are often defended on the grounds of providing a more efficient incentive structure. Here economists often argue that the self-interested assumption of their models is defensible either because it is better to economize on the amount of benevolence,[33] or because, irrespective of the amount of benevolence in society, for the purposes of institution-building it is best to proceed as if individuals were self-interested. This is to take self-interest as a normative claim, as opposed to either the tautological or empirical claims already discussed above. But the normative claim is equally problematic in either of the two formulations.

The trouble with 'economizing' on benevolence is that as we saw with blood donations, as an example of gift exchange, it may be the case that 'the less the requirements of the social order for public spirit, the more the supply of public spirit dries' (Hirschman, 1985, pp. 16–19). Bowles (1998) examines the evidence on the effect of markets on the supply of what he calls 'nice traits'. These include cooperation and reciprocity and they are 'nice traits' in that, in any game, everyone would like to be paired with individuals exhibiting such traits. The evidence is that marketization, for a number of reasons (the ephemeral and impersonal nature of markets, the low exit and entry costs of markets, and so on) may reduce the frequency with which 'nice traits' are observed in society.[34] This analysis can be compared with Putnam's work on social capital which includes what Bowles has called 'nice traits'. Putnam (1993) argues that social capital, including such things as reciprocity and trust, is important to economic performance and may be threatened by too much marketization. He too argues that social capital has the odd property that the more you use it, the more useful it becomes, basically because people who have become used to trusting each other in one domain find it easier to extend this elsewhere, whereas the less you use it, the less useful it becomes.

How about the argument that for the purposes of institutional design it is best to assume self-interest? Le Grand (1997, pp. 161–3) provides an interesting account of the dangers of such an approach which is close to some of the central concerns of this chapter. He considers whether the attempt to introduce a quasi-market reform such as performance-related pay in, say a state-run hospital, will have the beneficial effects imagined by the supporters of such reforms. He assumes that some of those working in this hospital are 'knights', in the sense that they are highly motivated by a professional ethic of service and are doing the best they can with considerable self-sacrifice while some are 'knaves' who free-ride, make money on the side and so on. Now the market reform works best if the new incentive structure ensures that the knaves come into line with the knights while the latter carry on as before.

But unfortunately this is not the only eventuality. For the knights might now begin to reconsider their situation and the extent to which they had been selling themselves short previously (perhaps feeling that their previous efforts were not acknowledged). They may indeed begin to act like knaves even if as above this process may take time to materialize – at first people may merely lack the 'space' to act in a knightly fashion but eventually such behaviour dries up. Now Le Grand does consider the argument that this might not matter if the incentive structure works for knaves. But he has two counter-arguments. Firstly, turning knights into knaves seems 'distasteful' and we have seen that the evidence is that the reduction of 'nice traits' is far from inconsequential. Secondly, the incentive structure may be far from watertight. Indeed we could add that the more self-interest becomes dominant, at the expense of a professional ethic for instance, the greater are the enforcement costs of contracts and indeed the policing costs for society at large (see Bowles and Gintis, 1993).[35] As O'Neill (1998, pp. 172–3) argues it is of course important when building institutions to be aware of the problem of knaves, and knavish behaviour in general, an argument that Le Grand also accepts, but:

> It does not follow, however, that institutions must thereby be designed around the assumption that all persons are thus motivated. The institutions that one would arrive at by that principle are themselves likely to foster the very vices they are designed to check … The problem is not that of either explaining or designing institutions given universal avarice, but that of examining the ways in which institutions define and foster different conceptions of interests. Individuals' conceptions of their interests needs to be the end point of analysis, not its starting point.[36]

Again it is the possibility of endogenous preferences that is crucial to the argument and which is ignored in much of economics. In short, economics, especially in its public choice guise, may be hampered by looking at different institutional options given self-interest, instead of also examining how the various options affect the degree of self-interest that will exist.[37]

Finally, we turn to how the market affects certain practices where the good in question can easily conflict with market norms. In many practices, including education and artistic production, for instance, the norms of the market can have a corrosive effect. Professionals in such practices need to be governed, to a certain extent, by non-market norms and standards that are internal to the practice (see Anderson, 1993, p. 147; Keat, 1994; O'Neill, 1998, especially chapters 11 and 12). Keat (1994), for instance, asks us to consider what would happen if academics in a philosophy department, whose main standard is presumably that of academic excellence, were required to compete for students with other departments. If they change their courses, for instance to include 'easier' philosophers or popular philosophers, say Derrida, for reasons of competition and without being convinced of their philosophical merit, then it is not difficult to see that the integrity of academic practice has been corrupted. The point is, of course, once more, that students are not consumers in any ordinary sense of the word. O'Neill's example is still more troubling. He considers the increasing pressure on scientific researchers in universities to see if their research can be patented, for university or individual gain, rather than published in academic journals, allowing the widest possible dissemination of knowledge. As O'Neill (1998, p. 167) concludes, this:

> … involves a shift in individuals' conceptions of their interests. In traditional scientific institutions one's interests were characterised in terms of recognition by peers of a significant contribution to one's discipline, recognition achieved through publication in a peer-reviewed journal. Commercial science brings changes in the nature of intellectual property rights such that publication is redefined as an act in conflict with one's interests. Hence the spread of university instructions *not* to publish results, since to do so will be to miss the 'benefit in material terms from the intellectual property you have produced'. The assumption about self-interested behaviour in the market cannot be transferred to other institutional contexts. In different roles in different institutions agents have quite distinct conceptions of their interests.

Most of the practices in this area can be considered as traditional crafts where the aim is to give the consumer not what they want, but to contribute to their capacity to appreciate the good in practice (Bowles and Gintis, 1987).[38] It is for this reason that many have argued that such practices need to be protected from the market and this has led to a debate about 'blocked' exchanges (see Waltzer, 1983; Andre, 1992; and Anderson, 1993). Again, this challenges the view of the autonomous and sovereign consumer who is self-sufficient and is the final arbiter of his/her preferences. But it does not follow that state or communal provision of such goods is thereby a limit on autonomy.[39] Once one accepts the ability to value different goods differently, then such provision is not about satisfaction of given preferences but expanding '…the range of significant opportunities open to its citizens by supporting institutions that enable them to govern themselves by the norms internal to the modes of valuation appropriate to different kinds of goods' (Anderson, 1993, p. 149).[40]

5. MARKETS, THE SOCIAL ETHOS AND EGALITARIANISM

We have seen above that social norms, by providing the context of rationality, play an important role in economic behaviour (for instance how we respond in various prisoner dilemma or collective action problems). Using this insight we have examined some consequences of expanding the scope of the market, and thus also the domain of the norms associated with the market. We have suggested that the consequences may extend, more radically, to altering over time the preferences of individuals.

Here we look, in some detail, at the possible ethical, and distributional, consequences of market expansion. The argument presented here revolves around Cohen's (see, for example Cohen, 1992; 1995; 1997; and 2000) critique of the difference principle as it is presented by Rawls, and as it is commonly understood to provide a justification for inequality if this works for the benefit of the worst off in society. Cohen's position is of particular relevance for us in that it constitutes a critique against incentives, and incentives are central to most arguments in favour of expanding the scope of the market on the grounds of efficiency. In Cohen's (2000, p. 124) view '…there is hardly any serious inequality that satisfies the requirement set by the difference principle, when it is conceived, as Rawls himself proposes to conceive it, as regulating the affairs of a society whose members themselves accept the principle'.

Cohen's argument is that how much inequality will be permitted will depend on what he calls the 'social ethos' of society, which means, as we shall see, that for Cohen for the concerns of justice we need to be concerned not just with the 'structure' of society – basically the fundamental rules within which individuals are free to make their choice – but with individuals' choices within any structure. Now Cohen's social ethos includes the social norms that we have been discussing here. Thus the argument we will present suggests that an increase in the scope of the market, which as we have seen comes with, amongst other things, a greater individualism and impersonality, will be bound to provide greater obstacles to a more equal distribution of income. Thus, it is somewhat disingenuous for someone to argue for a more market economy on the grounds of efficiency and then to bemoan the fact that inequality cannot be decreased because the worst off would be adversely affected.[41]

We begin by presenting a rather stylized and simplified account of Cohen's critique of the difference principle glossing over a number of complex issues. Although exactly what the difference principle entails is rather complex for Rawls and although it can be presented in a number of different ways, let us begin by stating it as it is most commonly understood. The principle is for a bias in favour of equality unless this would damage the least well off in society. It is thus a maximin strategy in favour of the worst off. This suggests that a certain amount of inequality is permissible as an 'incentive' to certain sections of society to produce more, something which will benefit the less well off. Cohen accepts calling these sections of society the talented for the sake of argument.[42] Now the question arises whether the talented people accept the difference principle. If they do not, then Rawls would not consider such a society just. That means that we are left only with the possibility that the talented do accept the difference principle. Then the question becomes, according to Cohen, asking the talented in what sense the incentives are necessary for them to produce more. Are they necessary in the strict sense that they could not under any circumstances produce the extra without the incentives or are they only necessary in the much weaker sense that the talented would decide to produce less without the incentives? It is not easy to see how the talented could respond to such an interrogation. As Cohen argues, it is difficult to see how the talented could claim to be adhering to the difference principle if they are acquisitive maximizers in daily life.

It is helpful to be a bit more precise about the nature of Cohen's argument. Cohen (1995, pp. 174–5) argues starting from equality – which is, of course, Rawl's starting point – one could think of incentives to the talented as a way to increase production. But there are in fact three cases to compare, not two as suggested by the incentives argument for inequality: (a) the original state of equality between the talented and the untalented; (b) a state of inequality (where the talented are better rewarded than the untalented) with greater production than in (a); and (c) a state where the increased production as the result of the actions of the talented is shared equally. In this last case, the talented are better off than they are in (a), but worse off than they are in (b) whereas the untalented are better off in (c) than in (b). The crux of the problem for Cohen is that the incentive argument for inequality seems to allow the talented to increase their reward 'by virtue of their bargaining power associated with their superior talent', when this was not allowed in the original position (case (a)). For, Cohen continues, if the talented had objected to equality in the original position, they would have been told that they were seeking to exploit morally arbitrary advantages. Thus Cohen concludes when the talented are being rewarded through incentives (case (b)) '… there is no *justified*[43] inequality, or at any rate the inequality that obtains still awaits its justification, and it *is difficult to see how it could be justified by anyone who approves of the first Rawlsian move, from equality of opportunity to equality*' (Cohen, 1995, p. 175, emphasis in the original).

It could be argued that whether the talented are adhering to the difference principle in their daily lives is neither here nor there. That is, it may be thought that the principle of justice for Rawls governs only the basic structure of a just society and therefore a just society can incorporate acquisitive maximizers in daily life. Cohen discusses this argument which could allow inequalities arising from the operation of the difference principle as 'the basic structure objection'. However, Cohen (1997, pp. 16–17) first points out that a very restrictive view of what counts as basic structure contradicts Rawls' statements that justice, as understood by Rawls himself, is compatible with the 'ideals of dignity, fraternity, and full realisation of peoples' moral natures'. Secondly, Cohen shows that there are important ambiguities concerning what is to be included in Rawls' basic structure – whether for instance it is to include just coercive institutions or major social institutions as well. Significantly, Cohen shows that there are important consequences for the scope and quality of Rawls' conception of justice if the definition of basic structure is drawn too narrowly. As he (Cohen, 2000, p. 140, emphasis in the original) concludes rhetorically 'Why should we *care* so disproportionately about the coercive basic structure, when the major reason for caring about it, its impact on people's lives, is *also* a reason for caring about informal structure and patterns of personal choice?'.[44]

Thus for Cohen (2000, p. 128, emphasis in the original) a social '*ethos* of justice' is crucial to how much inequality will be observed in any society that takes seriously the difference principle. As he concludes:

> In the absence of such an ethos, inequalities will obtain that are not necessary to enhance the condition of the worst off: the required ethos promotes a distribution more just than what the rules of the economic game by themselves can secure. And what is required is indeed an ethos, a structure of response lodged in the motivations that inform everyday life, not only because it is impossible to design rules of egalitarian economic choice conformity with which can always be checked,[45] but also because it would compromise liberty if people were required forever to consult such rules, even supposing that appropriate applicable rules could be formulated.

It is significant for our purposes that Cohen's target is the liberal political theory of Rawls (see Cohen, 2000, p. 148) since that theory mirrors its economics equivalent – neoclassical economics – in taking the individual, and her preferences, as given. It is in this sense that Cohen (1997; 2000) adopts the feminist principle of the 'personal is the political'. But as we have been seeing, there are important consequences in such a methodological stance of looking only at structures as opposed to individual choices within those structures, or similarly not looking at the way structures/institutions affect social norms and preferences. For our purposes what is important is that even if the difference principle if accepted, and some inequality allowed, its extent will clearly depend on the social ethos. In other words, one could expect very different answers to the interrogation of the talented depending on whether one was in a predominantly market regime, characterized by the norms discussed in the previous section, or in a much more communal regime, where norms such as reciprocity and the giving of your best to society predominate.

Furthermore, if the talented argue that incentives are needed for motivation – because of habit or normative belief – then these are to some extent endogenous to an inegalitarian society and thus subject, to a certain extent, to change (Cohen, 1992, pp. 290–91). This clearly has important implications when discussing the reform of the welfare state and the extent to which citizens are willing to pay for it:

> The extent to which we can do that without defeating our aim (of making the badly off better off) varies inversely with the extent to which self-interest has been allowed to triumph in private and public consciousness. (To the extent that self-interest has indeed triumphed, heavily progressive taxation drives high earners abroad, or causes them to decide to reduce their labour input, or induces in them a morose attitude which makes their previous input hard or impossible to sustain.) (Cohen, 1994, pp. 10–11)

Such a dynamic perhaps underlies the rising inegalitarian dynamic in liberal economies. The argument often heard in such societies that we should respond to rising inequality and poverty with better targeting of social expenditure is also problematic in this context. For it allows the operation of a vicious cycle whereby cuts in benefit entitlements lead to demands for lower taxes – for in a more individualistic, and less collectivist environment, where people need to pay increasingly more for private pensions, healthcare and education they see less in it for them from continuing to pay for the welfare state – which in turn leads to pressure to cut entitlements still further and so on (see Dilnot, 1995).

The argument, in short, is that if, as we have argued, institutions affect the social ethos – accentuating egoistic rather than communal norms, for example – then the degree of inequality permitted by the difference principle will be increased. As we have seen, it is not only the market norm of egoism which is at issue here. Also of importance is the impersonal nature of markets which 'defines a sphere of freedom from personal ties and obligations' (Anderson, 1993, p. 145). Egoism together with impersonality suggest a society in which the talented, or any other group for that matter, are under no obligation to defend their actions. Communities on the other hand are constituted to a certain extent by the very fact that there are norms prevailing which oblige the members to justify to each other to a certain extent their positions and actions. In other words, communities cannot just be exclusively based on individualism and contracts which is how the matter is usually conceived in both liberal political theory and neoclassical economics. For whatever the overall merits of communitarianism:

> … it may be true nevertheless that it takes a community for a person to flourish, just as it takes a shared language for them to think. And a community is not a thing entered into for the purposes of a mutually beneficial bargain, any more than a language is. It is not optional, as if we could back out of it when things are not going our way. … People deserve protection of their community because they need it, not because they are likely to repay it with goods and services. A community is largely constituted by its disposition to enter common action to meet its members' needs. (Blackburn, 1998, pp. 276–7)

Hence the importance of 'political goods', and the argument made earlier that a decline in the number of such goods, given the structure of power in actual market economies, is likely to be associated with a rise in inegalitarianism. Once more, increasing the scope of the market, by expanding the domain of egoism and impersonal activities, is likely to lead to more unequal outcomes.

6. THE POLITICS OF MARKET EXPANSION

Some of the more theoretical points made above can help shed light on some of the contradictions that are present when arguments in favour of a more market economy are made in the political arena. Arguments about efficiency – how the market will lead to an improved satisfaction of *given preferences* – often sit, rather uncomfortably, beside a rather different set of arguments that suggest that expanding the scope of the market is the only real alternative in the face of the forces of globalization and the transformation in the nature of production, as well as wider societal changes.

The latter set of arguments is particularly associated with what has come to be called Third Way theory which is associated politically with such politicians as Blair, Schröder, and to a lesser extent Clinton. While this tendency is still usually associated with the left, perhaps its most noticeable characteristic is its enthusiastic willingness to extend the scope of the market, even in areas such as health, education and pensions; areas that is where up to recently there was almost universal scepticism on the left about the efficacy of market-type solutions. Much of this theory has been influenced by the work of Giddens[46] (1994, 1998) and its main themes are by now well known: the decline of Keynesian social democracy and the disaffection with distant political institutions; globalization; the passing away of the Fordist mode of production and its replacement by more decentralized, dynamic and fragmented post-Fordist production methods; the associated decline in the importance of class and the rise of the 'new individualism'; the increasing significance of flexibility and risk taking; the importance of the 'knowledge economy'; and the emphasis on technology and the service sector.

However, using the above economic and sociological trends as a basis for politics, and in particular for our purposes as a basis for deciding the scope of the market, has a number of implications, not least the considerable reduction in the importance of political and ethical theory[47] (Finlayson, 1999, p. 271). Thus for Finlayson the most important implication is that:

> The design of a new politics became dependent on a particular interpretation that saw the benefits of autonomy and individuality deriving from trends inherent within contemporary capitalism. Thus it became a kind of technological futurism. Without the ontological and ethical commitments of orthodox Marxism or social democracy, or any reformulation of them, the critique of capitalism as such turned into a critique of the particular capitalism of Thatcherite neo-liberalism. It ceased being a *political* claim and became a *managerial* one about how to run things better. The understanding of the state of current social forces and the design of a political strategy to mobilise them turned into a desire to adapt to a pre-ordained future. (1999, p. 274, emphasis in the original)

That is to say taking certain sociological trends, as supposedly neutral empirical observations, as a basis of a new politics is open to an objection similar to that made in our own two-pronged critique of the way economists have often justified the use of the assumption of self-interest on empirical grounds – first on the grounds that an empirical justification is always prone to empirical refutation (in the analysis above we saw that there was plenty of evidence which suggests that actors are not solely motivated by self-interest – unless self-interest is defined tautologically and thus uninterestingly) and second on the grounds that what starts as an empirical claim all too often turns surreptitiously into a normative one. This is so also for Third Way theory. On the one hand the empirical/sociological claims of that theory have not gone unchallenged. To give just two examples Gordon (1988) and Hirst and Thompson (2000)[48] have challenged the idea that globalization constitutes a radically and unprecedented new departure in the world economy, while Brenner and Glick (1991) and others have questioned the size and scope of the 'flexible specialization' paradigm and the extent to which 'Fordist production' has been replaced.[49]

On the other hand the *ex parte* intervention of this 'empirical sociology' seems even clearer than that which we encountered earlier when discussing Taylor's critique of the economics of politics approach. Thus Hall (1998), in his critique of New Labour, argues that it '… can and does expend enormous energies seeking to change "the culture" and produce new kinds of subjects, kitted out and defended against the cold wind that blows in from the global marketplace'. He points to the moral discourse of New Labour and the pre-eminence given to 'self-sufficiency, competitiveness and entrepreneurial dynamism', lamenting the fact that 'Economic Man or as s/he came to be called, the Enterprising Subject and the Sovereign Consumer, have supplanted the idea of the Citizen and the Public Sphere'. For Hall, even New Labour's emphases on education and training:

> … are driven, in the last analysis, less by the commitment to opportunities for all in a more egalitarian society, and more in terms of supplying flexibility to the labour market and re-educating people to 'get on their bikes' when their jobs disappear as the result of some unpredictable glitz in the global market. (Hall, 1998, p. 11)

Once more, market-type reforms, and their justification, can be seen to be marginalizing alternative conceptions.

Here it is not that the state has no role, but that its role is that of a 'social investment state' (Giddens, 1998)[50] which helps individuals cope with the various risks that they face. The emphasis is on getting people back into work,[51] thereby also contributing to one of the other main components of Third Way politics, preventing social exclusion. The centrality of work in this approach is difficult to overstate as it bears on some of the most significant themes of the Third Way, revolving around the nexus of autonomy–well-being–responsibility. Freeden (1999, p. 47), in discussing New Labour ideology, nicely captures the extent to which this conception departs from previous left-wing ideas:

> … work is seen not in the socialist terms of human creativity, not even in the social liberal terms of a *quid pro quo* for services granted by the community, with its sense of a common enterprise, but as the far starker assumption of individual responsibility for financial independence, and an activity subservient to the economic and productivity goals established by market forces.

The argument being made here is that the nature of reforms, say in the welfare state, will depend very much on whether they are based on the values of social solidarity, interdependence and collective social provision or on the values of self-sufficiency and self-reliance.[52]

Now two observations are pertinent to the above conceptualization. The first has to do with what Finlayson (1999, p. 278) has termed the:

> … fallacy of empirical sociology – that social trends are always clearly identifiable and neutral phenomena if you have enough statistics…The result might be a tendency to accept economic developments as non-political, even natural phenomena, and the role of government as shaping us all up for the new world, forcing us to be reflexive. The intellectual justification for policy is an interpretation of our present socio-economic context, where the context is the source of both the conditions for economic transformation and their legitimacy. This could be a dangerous solipsism.

The point is of course that many of the developments of central importance to Third Way theory are surely endogenous to the political system, to the power of various social actors and classes, and so on. Thus for instance even if globalization does indeed constitute an important new development, there is still plenty of scope to discuss the extent to which this reflects deterministic technological factors as opposed to political decisions, reflecting the balance of political power.[53] The liberalization of capital controls for instance does seem to represent in an important sense a conscious political intervention. While Third Way theory does discuss issues of power to do with individual empowerment there is little evidence of any understanding of the way power relations at the societal level can systematically constrain the real choices of individuals.[54] As we argued above, taking market choices of individuals without considering the context is unlikely to be politically, and ethically, neutral.

The second observation is that the approach of getting people to line up with sociological realities is hardly consistent with the discourse of efficiency as analysed in this chapter. For it is difficult to argue that all that parties, such as New Labour, do is to promote policies, including the extension of the market, that better satisfy existing preferences. There is often a dangerous reductionism when the issue concerns the political impact of parties. In the late 1960s and early 1970s in Britain, there was a debate about why social democratic parties have a tendency to move to the right. One popular sociological theory at the time was the embourgeoisement thesis that argued that the phenomenon resulted from the success of the post-war economy and the welfare state. As workers became more healthy and wealthy, and acquired new commitments – mortgages, for instance – their ties to traditional communities weakened and they became more instrumental in their economic and political behaviour. That is, interestingly enough, they became more like the economic agents that economists employ in most of their models, and more reminiscent of the reflexive agents of Third Way theory. Parkin (1971), in an influential book in the early 1970s, pointed out that this approach assumed that a political party has no independent role. That is, its values and ideology were assumed to be the result of the values and ideology of its members or supporters in a politically unmediated way. Parkin made the simple, but easy to ignore, point that this was unrealistic or, at best, only part of the story and that political parties did not just act as recipients of the ideology of their base but also engaged in transforming the values and commitments of that base. Parkin thus allowed for the eventuality that the movement to the right in the post-war period could be the result of the approach taken by the parties themselves. Parkin's anti-reductionist argument is of particular importance because it suggested that there was an issue with respect to whether, and to what extent, institutions could influence, or even shape, preferences. And New Labour rhetoric of the 'Enterprising Subject' or 'Sovereign Consumer' can be seen as a clear attempt to 'transform the values and commitments' of its electoral base.

So while the expansion of the market, and market-type arrangements, are often defended on the grounds of efficiency, they are also often implemented in a manner that goes well beyond the discourse of efficiency. The main argument of this chapter is that expanding the market to promote efficiency, and perhaps also by appealing to the values of self-sufficiency and self-reliance, entails a certain amount of confusion, but certainly entails a lot more than questions of efficiency. If successful, then such a strategy makes alternative conceptions much more difficult to conceptualize, let alone carry out. The more competitive the environment, the more people see themselves as isolated individuals, then the more difficult it is to offer social provision on more collectivist and solidaristic grounds.[55] Both the discourse of efficiency and Third Way theory have in common an unwillingness to talk about ends which are seen as unproblematic or the results of sociological trends. We have argued that questions about the scope of the market cannot be addressed without talking about ends, that is without an important ethical debate about the type of society and the type of people we want to become, as well as the type of goods that will be available. Furthermore we have argued that a failure to deal explicitly with such issues is likely to have important consequences in a number of areas, consequences that are likely to be most unequal in their impact between economic classes, and more generally between the powerful and the weak.

NOTES

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1. This is in actual fact how economists understand the Second Fundamental Theorem of welfare economics and so this chapter provides a critique of using this Theorem in that way. Of course, there are many other criticisms of the Second Welfare Theorem which originate from a more orthodox perspective. These include the fact that production and consumption sets may not be convex, the existence of transactions costs and other-regarding preferences, the infeasibility of lump-sum taxes and so on. See also Sen (1989) and Roemer (1995).
2. It has been pointed out to me that expanding the market is also often supported, not only because it may serve as the best way of reaching given ends, but because it also encapsulates desirable ends in itself. For instance, it could be argued that the market is crucial to our understanding of people who are autonomous and who are able and willing to make choices. It may also be argued that markets bring about other desirable ends – for instance, reducing discrimination. While I may be sceptical about the market's ability to reduce discrimination or to incorporate all aspects of what we value in autonomy (for an excellent discussion of the relationship between the market and autonomy, see O'Neill, 1998, especially chapters 5–7), this is not my goal in this chapter. Indeed, arguments about ends are precisely the ones that this chapter is seeking to encourage and which the discourse of efficiency, as I have described it, tends to marginalize.
3. The analysis here does not engage with the more traditional concerns of market failures where often an increase in the scope of the market may, of course, not necessarily lead to an increase in efficiency. And while this article is critical of the dominant approach in welfare economics, it is also only fair to point out that much of the welfare economics literature is acutely aware of a wide range of causes for market failures (for example, externalities, public goods and merit goods).
4. For those in the tradition of radical economics this impersonality of the market is reflected in the structure of orthodox economics with its emphasis on circulation and neglect of production (see Rowthorn, 1980).
5. This account of the market is clearly influenced by an economics perspective and fits best with how it is understood in the discourse of efficiency. The account of liberal philosophers, or political theorists, on the nature of the market incorporates a much richer view of the values and norms that surround the idea of the market. Thus the impersonality of market transactions is also central to the values of autonomy or freedom. On whether this distinction is important for my argument, see note 2.
6. For a wider discussion on the role of social norms in economics, see Elster (1989) and Hodgson (1998).
7. It should be noted that it has been argued that even financial markets are more complex in their operation than the simple story described above. Traders may develop complex sets of rules and systems of mutual regulation which enhance a particular market's operation (Block, 1990, p. 50).
8. For an argument that any real economy will, by necessity, consist of different allocative regimes (the balance between them will, of course, vary) and that there is therefore no possibility of a 'pure' system, see Hodgson (1984).
9. For a range of views in this debate, see Arrow (1972), Singer (1973) and O'Neill (1992).
10. We return later to the issue of whether it is in fact irrational.
11. O'Neill (1998, p. 141) argues that the market tends to promote a 'technical rationalism' with 'the paradoxical but in the end unsurprising fact that where markets enter into associational spheres there is a tendency to an audit culture that is similar to that of centralised planned economies'. This is in line with those who have been arguing that it is wrong to view the lack of markets, and the profit motive, as exclusively responsible for the poor economic performance in planned economies for it is also the case that '…Communist *society* was too monistically rationally organized to be able to produce economically beneficial constraints on the economy and thereby protect and replenish the social supply of confidence, good faith, trust, long-term obligations, "work ethic",

and legitimate authority required for economic performance' (Streeck, 1997, p. 209, emphasis in the original).

12. For a good short introduction to the work of Nove in this respect, see the account in Thatcher (2000).
13. On this broader definition of preferences, see Bowles (1998, p. 79).
14. Akerlof and Kranton (2000) analyse how identity, which they define as a person's sense of self, can affect economic outcomes, often in a manner different to that predicted by more conventional economic models, in a range of circumstances such as gender discrimination in the workplace and poverty. O'Neill (1998, chapter 6) provides a broader perspective on the relationship between identity, autonomy and the market.
15. I do not in fact think that there is much to be said for the *substance* of Lindbeck's argument – indeed the evidence of the supposedly negative effects of the welfare state on peoples' motivation and 'work ethic' is remarkably thin given how often it is appealed to. But an argument about the effects of market, and non-market, institutional reforms is exactly what this chapter is seeking to encourage.
16. One of the more well-known results, which is all too often treated as an empirical curiosity rather than something of a challenge to mainstream theorizing, is the fact that amongst social science students economists are the least likely to contribute to public goods type games (Frank, Gilovich and Regan, 1993).
17. This idea can be traced to J.S. Mill who argued that everybody has both selfish and unselfish interests and that the social ethos affects which of the two will be observed more in practice. On this issue see Cohen (1994, especially footnote 14).
18. Another example similar to voting where comparable considerations hold is the tendency of people to form groups and thus overcome the problem of free-riding. As Hirschman pointed out in discussing Olson's 1965 book on the *Logic of Collective Action* (1965), 'Olson proclaimed the impossibility collective action for large groups … at the precise moment when the Western world was about to be engulfed by an unprecedented wave of public movements, marches, protests, strikes, and ideologies.' (Quoted in O'Neill, 1998, p. 169).
19. For more on the distinction between instrumental and non-instrumental behaviour, see Hirschman (1985) and Abelson (1995).
20. For an excellent discussion on the origins of social norms, see Blackburn (1998, pp. 191–9).
21. This digression follows closely the analysis of Simon Blackburn (Blackburn, 1998, chapters 5 and 6).
22. This may be given a biological reductionist twist as in the work of those economists, such as Becker (1976) and Hirshleifer (1977), who see links between economics and sociobiology. For a critique, see Hodgson (1993) and, for a more philosophical approach, Blackburn (1998).
23. See for instance Hirschman (1985) and Bowles and Gintis (1993). This reliance of the market on the institutional background was well understood by the classical economists, such as Adam Smith. In the sociological tradition, the idea dates back to at least Durkheim who argued that no actor had an incentive to reach any agreement or make any transaction with someone else without the belief that such a contract would be upheld. This in turn depends on a 'precontractual' consensus of shared values. Markets, in short, cannot exist on their own and thus need a pre-existing social cement. Polanyi also emphasized strongly the social prerequisites for the successful operation of a market economy (Streeck, 1997, p. 207). For a discussion of these issues, and the increased attention being paid to them in the mainstream economics literature, see Henley and Tsakalotos (1993, especially chapter 3).
24. Quoted in Gutmann and Thompson (1996, p. 21).
25. Blackburn sheds much light on this issue by making a distinction between the empirical game – basically the payoff structure – and what he calls the theoretical game which is how people, bringing with them all their various interests or concerns, will interpret it.
26. The usual example is two farmers who take it in turn to help each other bring in the harvest. If in the final year the farmer who harvests last fears that the other will fail to

cooperate since it will be the last harvest then he may not cooperate himself. By a process of backward induction we get no cooperation at all.

27. The type of arguments here work strongly against the possibility of naturalism in the social sciences, the idea that social science should adopt the methodology of the natural sciences. As Taylor (1985), amongst others, has argued, social science theories influence how people understand their environment or their practices but may also help to alter that understanding (how physics and physicists understand the movement of the atom does not, of course, alter the way atoms do in fact move). Thus a social science theory is not about an independent object and it is therefore important to take into consideration the ways in which theories influence the practices they are about.
28. For a review of the recent work on whether the introduction of vouchers does in fact lead to increased efficiency, see Gardner (2000).
29. For various conceptions on the community role in education, see Waltzer (1983) and Gutmann (1987). Fiske and Ladd suggest that in the New Zealand case the introduction of vouchers has had adverse distributional effects and that 'While there are many satisfied individual customers, important goals of the broader society have been ignored or even undermined' (Gardner, 2000, p. 49).
30. On the way economics has tended to ignore preference changes of a reflective kind by assimilating all preference changes to changes in tastes, see Hirschman (1985, pp. 8–9).
31. Macleod (1998) in a critique of Dworkin's work on political theory, and in particular the attempt to link equality to the market, concludes that market strategies, and strategies that rely on market-type methodologies, such as the use of hypothetical insurance markets to determine distributional questions, '…can lead us to ignore important dimensions of human interests which need to be accommodated within the design of real social institutions. Non-market theories of equality and non-market institutions are needed if we are to deal adequately with such issues as the circumstances of deliberation, the significance of culture, or even the distributional significance of risk-taking.
32. For an analysis of the relevance of these issues in various areas, such as health and safety in work or environmental regulation, see Sunstein, 1997; Anderson, 1993; and Sagoff, 1988.
33. An assumption that Hirschman (1985, p. 16) credits to Dennis Robertson.
34. This follows from a long line of social thinking that has argued that the market may weaken those traits (whether they were termed trust, community or civic spirit differs between analysts) that are important to the success of market economies. Hirschman (1982) discusses such ideas in the work of such diverse theorists as Horkheimer, Schumpeter and Hirsch. It is also only fair to point out that Hirschman also discusses the idea, particularly common in the 18th century, that an expansion of the market would not only be good for the economy, but would also lead to a more 'polished' human type – 'more honest, reliable, orderly, and disciplined, as well as more friendly and helpful, ever ready to find solutions to conflicts and a middle ground for opposed opinions' (Hirschman, 1982, pp. 1465). As we have said above, the idea of the market is not a simple one and thus it is not surprising that there are so many disagreements about both its economic and moral effects. For the sake of our argument, what is important is that the market has these type of effects which must be taken into account when discussing the scope of the market.
35. In low trust societies we in fact often observe a vicious circle of new regulations or incentive structures to control knaves who then find ways of getting round them, necessitating a new wave of regulations/incentives. For an argument that such a dynamic may hold in Greece, see Lyberaki and Tsakalotos (2000).
36. While public choice theorists, such as James Buchanan, often suggest that they are making the self-interested assumption on the above grounds in the best liberal tradition, it is important to point out that the liberal tradition is far from united in this respect. For instance J. S. Mill argued that 'the first question in respect to any political institutions is, how far they tend to foster in members of the community the various desirable qualities, moral and intellectual' (Quoted in O'Neill, 1998, p. 173).
37. O'Neill (1998, p. 166) notes that the effects of institutions on preferences are introduced implicitly in public choice theory when certain assumptions about what politicians,

bureaucrats and so on actually maximize are introduced in an *ad hoc*, and eminently disputable, manner.

38. This also entails a certain view about relations of authority with respect to these practices (Keat, 1994, pp. 36–7).
39. It is only fair to point out here that important liberal thinkers such as Dworkin and Kymlicka would not disagree with this contention. This brings up the question of antiperfectionism and liberal theory. This raises complex issues beyond the scope of this chapter, but for an excellent and impressively clear account of how liberal thinkers respond to such issues (as well as on the extent to which Rawls' new position in his book *Political Liberalism* succeeds as an exercise in antiperfectionism), see Mulhall and Swift (1992).
40. For a similar view on how autonomy is expanded by such provision, see Keat (1994, p. 36).
41. Or at least it is disingenuous unless the argument comes with an explicit argument about priorities – an argument that needs to be couched in terms of ends, not just means.
42. There need be no presumption, of course, that those getting incentives are in fact more talented since it is easy to conceive that what is needed for more production could be more selfishness or more aggressive behaviour and not talents. Nor of course is talent a morally relevant issue for the purposes of justice either for Cohen or for Rawls himself.
43. Cohen's analysis does allow for the possibility that the inequality is justified. For instance, the extra production may require greater burdens to be placed on the talented. In this case, there would be no unjustified inequality, since what inequality existed would be the result of differential burden.
44. A full account of this debate is beyond my scope here, although, to me at least, Cohen's arguments seem compelling.
45. Cohen points out the problem of getting information on the extent to which incentives are really necessary for extra burden or effort.
46. For interesting reviews of this approach, see Freeden (1999) and Finlayson (1999). The latter convincingly argues that the roots of Third Way theory lie in the analysis of 'Marxism Today' which was influential on the Left in Britain in the 1980s. Finlayson argues that there were two basic components to this analysis: one was based in Stuart Hall's Gramscian analysis of hegemonic politics and the other was the work that became known as the 'new times' and, as in the analysis of Giddens, stressed new developments in production and more generally in society.
47. See Cohen (1994) for more on New Labour's lack of interest in political and ethical theory.
48. In their more recent work they have claimed that such scepticism is especially pertinent for the case of Britain, and that it is odd that New Labour should be basing so much of its strategy on the need to respond to the forces of globalization when Britain is already one of the most internationalized economies anyway (Hirst and Thompson, 2000).
49. Economic and sociological trends are always likely to be subject to dispute on their size, scope and importance. In particular it is rarely easy to decide the extent to which they are exogenous or the result of policies, or whether they represent a new trend or just one phase of a cyclical phenomenon.
50. Social exclusion thus replaces a concern with equality *per se* with precious little argument, in terms of political or philosophical theory. Social exclusion is presented as a necessity to limit dissatisfaction in the more flexible and risky environment (see Finlayson, 1999).
51. For radical critics, such as Habermas (1999, p. 54), it is this emphasis which ties Third Way thinkers to the 'ethical conceptions' of neo-liberalism, that is a willingness 'to be drawn into the ethos of a "lifestyle attuned to the world market", which expects every citizen to obtain the education he needs to become "an entrepreneur managing his own human capital"'.
52. Gutmann and Thompson (1996, chapter 8) compare and contrast a welfare-to-work policy based on the ideas of self-sufficiency and self-reliance, with a similar policy based on the idea of mutual dependence and show that the results in terms of distribution and the welfare of the poor are very different in the two cases.

53. In Tsakalotos (2000), I argue that the European employment strategy has consistently underplayed the possibility that a more active demand-side policy can make a contribution to reducing European unemployment and that this approach constitutes a significant intervention in the power relationship between labour and capital in the EU.
54. In the article mentioned in the previous note, I argue that the labour market policies of the European Employment Strategy, which have been influenced by Third Way theory, and which ignore the problems associated with power at the societal level, have marginalized the issues of equality and economic democracy.
55. Stewart (1995) argues that such considerations were central to the arguments of those in Canada opposing the Free Trade Area with the US – the fear was that the Canadian economy would have certain policy instruments and certain values (for instance, a more informal cooperative society) put at risk. By what argument should the concerns of those supporting the market be seen as more important? It seems that such an argument could be made, but it is difficult to see how it could be made by restricting the debate to efficiency and avoiding all talk of the appropriateness of ends.

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3. The rise of neo-liberalism in advanced capitalist economies: towards a materialist explanation

Michael C. Howard and John E. King

'The coming massive socialisation of the conditions of life will destroy free enterprise as the pillar of liberal ideology' (Aglietta 1979, p. 385).

1. INTRODUCTION

Most materialist accounts of the rise of neo-liberalism view it as a ruling class reaction to the upsurge of workers' militancy, the retardation of productivity growth and the decline of profitability that began in the late 1960s.[1] We argue that there is much more to it than this conjunctural crisis which, at most, acted only to trigger a neo-liberal offensive on the part of some political parties in leading capitalist states. Likewise, we regard the restructuring of American hegemony over the same period as related to, but not the fundamental cause of, the neo-liberal resurgence.[2] Instead, we seek to explain neo-liberalism in a technologically determinist manner, although (in contrast to most theorists of business) we do not look primarily to the 'new economy' of information technology.

Despite being consistent with historical materialism, however, the triumph of neo-liberalism represents a comprehensive refutation of one of the most important predictions made by Marxist theoreticians over the course of the previous century, which was also widely accepted by non-Marxists: that is, that the technical and social development of capitalism was inherently market-eradicating. The stark fact is that the rise of neo-liberalism was not predicted by any Marxist, of any persuasion. Much worse, it is the polar opposite of what classical Marxian theorists predicted, to wit, the increasing irrelevance of markets within the private sector, the inevitable growth of the public sector, and hence the ripening of socialism 'inside the womb of capitalism', to use Marx's own very striking metaphor. This was what Marx and Engels confidently expected, and it was common ground to all the warring factions inside the Second and Third Internationals, from Kautsky and Hilferding to Bukharin and Lenin. 'Organized capitalism', 'state monopoly capitalism', 'state war monopoly capitalism' were just a few of the labels that they coined to describe the new phase of capitalism that they saw (or so they believed) to be emerging around them. Neo-liberalism in reverse, in fact.[3]

As the quotation from Michel Aglietta at the head of this chapter demonstrates, this prediction remained essentially unchanged, among the great majority of intelligent and thoughtful Marxists, at the very end of the 1970s. Its rapid and total falsification contributed substantially to the great contraction of the Left over the last 20 years, and to the mental paralysis of much of what remains. The problem is not confined to Marxists. Social Democrats have shared in the illusion of market elimination (Crosland, 1956). Institutional and evolutionary economists, too, from Thorstein Veblen to John Kenneth Galbraith, have also been proved comprehensively wrong in their belief that the market had had its day. In Galbraith's words:

> The relevant historical change to which there must now be accommodation is in the nature of the industrial market. The market, with the maturing of industrial society and associated political institutions, loses and loses radically its authority as a regulatory force. Partly this is inherent in industrial development – in the institutions that modern large-scale production, technology and planning require (Galbraith, 1978, p. 8).

A similar error was made by the many neoclassical and Keynesian economists who saw the modern economy as requiring a greatly expanded public sector, among them such notables as Kenneth Arrow and Andrew Shonfield:

> I was [in the 1950s] convinced of … the value of economic planning. I believed we could correct flaws in the economic system … by government intervention based upon overall planning for the future direction of economies (Arrow, 2000, pp. 15–16).

> In the private sector the violence of the market has been tamed … Governments … for purposes of economic planning have encouraged firms within an industry to evolve agreed policies on the basis of common long-range interests. The classical market of the textbooks in which firms struggle with one another and disregard any possible effect that their actions may have on the market as a whole has become more remote than ever (Shonfield, 1965, p. 66).

Weberian critics of increasing bureaucratization have been similarly confounded, along with Parsonian advocates of the 'logic of industrialism' which supposedly tames and socializes the market (see, for example, Kerr et al., 1960). 'New class' theorists, from James Burnham to Alvin Gouldner, too, have seen their most important propositions refuted by the rise of neo-liberalism, which has reasserted the power of finance over mere intellectuals, bureaucrats, cultural functionaries and technicians (Gouldner, 1979).

We define neo-liberalism as a doctrine and a related social practice. The *doctrine* is that all, or virtually all, economic and social problems have a market solution, with the corollary that state failure is typically worse than market failure. Unlike classical liberalism, however, neo-liberalism recognizes that political agencies must frequently act as financiers, supervisors and regulators of markets and marketization. Thus neo-liberalism does not necessarily entail a massively reduced ‘weight’ for states or a reduction in their core powers, only that their activities must be significantly restructured and redirected. Nonetheless, most proponents of neo-liberalism, as well as their opponents, take it for granted that the resources absorbed by public authorities will (eventually) decline significantly when measured as a percentage of total output, and sometimes this is associated with a ‘decline of the State’ (Ohmae, 1995; Strange, 1996). The *practice* is the continuing and increasingly intensive application of this doctrine to an ever-expanding area of life in the real world, via the privatization of state industries and public services, the elimination of ‘dependency cultures’ and the introduction of market-mimicking arrangements to those areas of government activity that remain unprivatized.

Two potential sources of confusion must be dealt with at the outset. Neo-liberalism is not, on our definition, the same thing as globalization, though the two phenomena obviously overlap. Globalization plays some role in the story that we have to tell, but not the leading (still less the only) role. In our opinion the term is too often used as a mantra, with the effect – if not the intention – of suppressing critical thought. For us, the current phase of globalization is a consequence of the same forces that underpin neo-liberalism and is most appropriately viewed as one dimension of this phenomenon. Nor is neo-liberalism synonymous with the rise of the New Right, important though the Thatcher and Reagan regimes were to the propagation of neo-liberal ideas and the implementation of neo-liberal programmes. There is no reason in logic why neo-liberalism could not be combined with radical egalitarianism. Such a marriage has in fact been consummated, for example in John Roemer’s model of market socialism where all the running is made by socialist merchant bankers, and in Samuel Bowles’ and Herbert Gintis’ proposal for health, education and social services to be provided by competitive cooperatives owned and managed by their workers.[4] Similar ideas were influential for a while in Germany, where some ex-68ers retained their original egalitarianism while succumbing to ‘the magic of the market’. The ‘radical neoclassical school’ associated with Winfried Vogt in Regensburg – and echoed, to some extent, by the journalist Peter Jay in Britain – eventually lost its radicalism while remaining faithful to its neoclassicism.[5]

Can all this perhaps be explained in terms of historical materialism? We argue that it can. In the next section we summarize the main claims of technological determinism and seek to resolve or neutralize some of the problems it is alleged to exhibit. This is followed by an extended account of why classical Marxists, and many other theorists as well, argued for the decline of the market. Then we explain where they all went wrong and clarify why neo-liberalism occurred when it did, and not earlier. Next we elaborate upon the inappropriate policies instituted by neo-liberal governments and seek to locate the contradictions of neo-liberal capitalism. Finally, we draw some implications of our thesis for future developments and provide an overall summary and conclusion to our argument.

2. HISTORICAL MATERIALISM IN A NUTSHELL

The canonical version of the technological determinist version of historical materialism was set out in the preface of Marx's *Critique of Political Economy* (Marx, 1859) and subsequently elaborated upon by many Marxists (see, for example, Plekhanov, 1895, and Kalecki, 1965), including most rigorously by G. A. Cohen, whom we follow in defining some central concepts (Cohen, 1978, 1988, see also Shaw, 1978) The principal claim is that the relations that define the economic system, and the institutions of politics and law, as well as dominant forms of social consciousness, are all ultimately determined by the requirements of the productive forces. These productive forces consist of means of production and labour power. The means of production are raw materials, spaces and instruments of production, the latter including tools, machines, premises and instrumental materials. Labour power is taken to mean the productive abilities of producing agents, comprising their strength, their knowledge and their inventiveness. Thus scientific knowledge which can be used in production counts as a productive force (Cohen, 1978, pp. 32, 45, 55). The productive relations are relations of power, and generally also take the form of ownership rights, over the productive forces (Cohen, 1978, pp. 63–6). The productive relations constitute the economic structure, or economic system. This is contrasted with the superstructure, which consists of all those non-economic institutions whose character is crucial to the functioning of the economic system, in particular the legal system and the state (Cohen, 1978, pp. 216–17). Social consciousness, being a set of ideas rather than an institution, is not part of the superstructure but is closely related to it (Cohen, 1978, pp. 45–7; Torrance, 1995).

Three propositions form the core of historical materialism. The *development thesis* states that the productive forces tend to develop throughout history as a result of the transhistorical capacities of human intelligence and rationality, operating in an environment of scarcity. The *primacy thesis* claims that the level of development of the productive forces explains the nature of the productive relations, which in turn accounts for the superstructure and of social consciousness (Cohen, 1978, pp. 134–5, 152, 165). The *fettering thesis* asserts that, when the productive relations become a shackle on the development of the productive forces, they will be changed in order to break the fetters (Cohen, 1978, p. 159). The case for the primacy and fettering theses hinges on the argument that different relations of production have different capabilities with regard to operating and developing the productive forces at different stages of development. Likewise, the reproduction of particular economic systems requires specific superstructures and forms of social consciousness.

A broadly similar way of thinking about the primacy thesis was suggested by Michal Kalecki (1965). He denotes natural resources by A (whereas Cohen simply includes them in the productive forces). 'The economic situation' is represented by B; this is, in effect, the remainder of Cohen's productive forces. With C standing for the productive relations and D for the superstructure, Kalecki notes that autonomous developments within these four spheres can be written as $A \rightarrow A$, $B \rightarrow B$, and so on. More interesting are the interdependencies between the various spheres, the significant ones being

$B \rightarrow A$ and $A \rightarrow B$
$B \rightarrow C$ and $C \rightarrow B$
$B \rightarrow D$ and $D \rightarrow B$
$C \rightarrow D$ and $D \rightarrow C$.

Feedback from superstructure to productive relations, and from productive relations to productive forces, can therefore be taken into account. The primacy claim, however, entails that some of these interdependencies are much more important than others. In particular, $B \rightarrow C$ is stronger in some sense (qualitatively or quantitatively) than $C \rightarrow B$; $B \rightarrow D$ is stronger than $D \rightarrow B$; and $C \rightarrow D$ is stronger than $D \rightarrow C$. The relative importance of $B \rightarrow A$, $A \rightarrow B$ and of autonomous environmental change ($A \rightarrow A$) is somewhat contentious, as we shall see in section 7. If we accept Cohen's distinction between the superstructure, which consists of institutions, and ideology, which is comprised of ideas, we need to denote the ideological sphere by E and to assess the interdependencies

$B \rightarrow E$ and $E \rightarrow B$
$C \rightarrow E$ and $E \rightarrow C$
$D \rightarrow E$ and $E \rightarrow D$.

Historical materialists maintain that $B \rightarrow E$ is the crucial causal relation.

Taken together, the three theses of development, primacy and fettering give rise to a theory of historical change. Cohen distinguishes ‘type-preserving’ changes in the economic structure from changes in social form, the latter being ‘the revolutionary case in which the type of economic structure does change, because one dominant production relation supplants another’ (Cohen, 1978, p. 86). The most celebrated example of such a change in social form is the replacement of feudalism by capitalism in late medieval and early modern Western Europe. Examples of type-preserving changes are found in the evolution of capitalism from one stage or phase of its development to another: from ‘manufacturing’ to ‘modern industry’ in Marx’s own analysis (Sweezy, 1968); from ‘competitive’ to ‘monopoly capital’ in many subsequent accounts, and, we would claim, the onset of neo-liberalism with which this chapter is concerned.

It should be clear from this that historical materialism is a theory of economic, political and cultural structures, and their mechanisms of change, rather than a narrative history. In other words, historical materialism is coarse-grained. While historical paths are sequences of events and actions, historical materialism is not much concerned to describe what they are, beyond explaining their general type and overall trajectory. It therefore provides space for a variety of detailed accounts of particular happenings within the confines of technological determinism and the dialectic of the productive forces and the productive relations. This point now seems to be widely accepted, so we pass on to consider more critical issues.

While Cohen’s principal achievement has been the conceptual clarification and coherent restatement of a technological-determinist version of historical materialism, not all issues have been successfully treated. It is, for example, unclear whether the fettering thesis relates primarily to the use of the productive forces or to their development (Cohen, 1988, chapter 6). But this and other remaining analytical deficiencies are not very important for our present purpose, which is to account for neo-liberalism materialistically. Much more problematic for this endeavour are four substantive issues, and the remainder of this section focuses on their elucidation and resolution.

First, the domain of application of historical materialism is ambiguous. Surprisingly, even Cohen nowhere explicitly designates the types of economy to which the three core propositions apply: to local economies; to regional, national, or continental economies; or to the world economy as a whole. In the intellectual history of Marxian political economy strikingly dissimilar positions have been taken on this question. One way of representing the differences in 1917 between Bukharin, Trotsky and Lenin on the one hand, and Kautsky, Hilferding and Plekhanov on the other, is that the former took the world economy as the relevant unit in terms of which the concepts of historical materialism were to be understood, whereas the latter believed that national or regional territories were the appropriate entities (Howard and King, 1989, part II).

Second, whatever the interpretation chosen, there is the problem that actually existing capitalisms have always been divided into multiple political jurisdictions. This fragmentation, it has been frequently claimed, can engender another dynamic rivalling that specified by historical materialism. Stated in its most spartan form – in the terms of the realist theory of international relations – the system of states creates and sustains an expectational environment of self-fulfilling fears. In conditions of ‘anarchy’ each sovereign state faces a security dilemma, in which apprehension as to the hostile intentions of other states leads to policies that enhance military capabilities, so threatening other states. This results in a generalized set of insecurities, alliances to balance power, and wars. Thus the logic of geopolitics seems to compromise the technological propellant emphasized by historical materialism. Productive power is constrained, retarded and sometimes reversed; revolutions can result from state breakdown in the face of military defeats rather than from fettering; and economic relations, superstructures and ideologies are always to some extent modified from those forms most conducive to meeting the requirements of the productive forces.

Third, the development thesis and primacy thesis seem inconsistent with peripheral backwardness. Today, technology is available to raise living standards massively, yet, despite evident desires for improvement, economic development remains confined to a small set of advanced capitalist economies whose per capita incomes are diverging even further from those elsewhere in the world (Pritchett, 1997). So the materialist claim that the drive for enhanced productive power is the dominant force appears unbelievable, along with the prediction that class struggles induced by fettering must eventually destroy all obstacles to development.

Fourth, so pervasive and persistent is the coexistence of technologies of affluence with underdevelopment that many social scientists invert the direction of causation that is specified by historical materialism. They argue that it is superstructures riddled with corruption, together with pre-modern forms of social consciousness, that underpin backwardness. Historical materialists are therefore wrong in presuming that political and ideological factors adjust to the economic, which is itself fashioned in accord with the needs of technology. The reverse is really the truth in most of the world: economies are subordinate to politics and culture, while production is dominated by predacity.[6] Thus the mechanics of history are misspecified by historical materialists. Only in the advanced capitalist core, it seems, are there strong forces ensuring that the requirements of productive power override non-productive redistributions of assets and inefficient cultural practices.

Marx's own inadequacies on all four issues are well-known. He never specified consistently the domain of historical materialism; he regarded the system of states as being much less important than the logic of transnational economics, considered the application of force to be wholly progressive in its economic consequences, and saw imperialism as ending underdevelopment and universalizing capitalism (Howard and King, 1985, 2001). Subsequent Marxian theorists have tended to backpedal, in two ways. In the first half of the twentieth century they stressed the destructiveness of warfare between great capitalist powers, interpreted as the result of fettering and indicating the necessity of socialist revolution on a world scale (Howard and King, 1989, chapters 12–13). After the Second World War, in the context of emerging globalization, Marxists claimed that it was the exploitative redistribution of surplus from the periphery to the core that accounted for the pattern of development and underdevelopment. They characterized capitalist relations as essentially predatory rather than productive so that, while the state system no longer induced barbarism all round, it functioned to lock in underdevelopment for the bulk of humanity. Only socialist revolutions, they maintained, could bring genuine advance (Howard and King, 1992, part III).

Not surprisingly, the technological determinist version of historical materialism fell into disfavour in the second half of the twentieth century. Only in the 1970s was the original form resurrected and polished analytically, above all by Cohen. But, brilliant as this has been, the substantive problems just reviewed were neglected. Our topic requires that we address them, at least insofar as they bear upon neo-liberalization, and in the remainder of this section we sketch what we consider to be the most appropriate resolutions of the obstacles facing an explanation of neo-liberalism in terms of a technologically determinist historical materialism.

We regard the domain of application of historical materialism as being primarily that of advanced capitalisms. These are economic systems clearly structured for the efficient use and development of the productive forces (Howard and King, 2001). Other economic systems are well inside the technical frontier, and thus less susceptible to being influenced by the economic and superstructural requirements of the latest vintages of the productive forces. Some less developed economies have grown rapidly in recent decades, especially in East Asia, but the institutions they adopted to do so were orientated to achieving 'catch up' rather than the efficient employment of the full range of technologies that operated in the most advanced economies (Amsden, 1989; Evans, 1995). Moreover, while many NICs may have succumbed to neo-liberalization, along with the periphery generally, this was not generated internally but rather, to a very large degree, imposed by the advanced countries when the opportunity arose, usually in the context of international financial crises. It is this which allows us to sidestep here the more general problem of explaining the apparent lack of application of historical materialism to backward economies.[7]

As the principal subjects of historical materialism, advanced capitalisms are themselves most appropriately treated as a set of different economies, separated by political borders. Typically, the extent of economic interaction inside such jurisdictions is very much larger than transborder transactions (Baker et al., 1998). The economic systems to which historical materialism primarily relates, then, comprise advanced capitalisms seen as an internally divided group rather than a collective without much internal segmentation at the apex of a singular world economy. Not surprisingly, most neo-liberalization has not emerged as the outcome of a spontaneous Hayekian process, but instead has been legislated and administered by advanced capitalist states (Helleiner, 1994). The extent and depth of their bureaucratic reach, widespread surveillance capacities and regulatory responsibilities precluded any other route. Of course, this does not imply that neo-liberalism was caused by politics or ideology. It was only implemented politically; as we will argue below, the requirements of technology were the major determinants. Naturally, this does not mean only by the requirements of actually existing *domestic* technology. Almost all large corporations in advanced capitalism are involved in transborder activities to some extent and are influenced by opportunities and pressures arising from abroad. Similarly, advanced states have always regarded it as a part of their duties to refashion domestic institutions in response to international business requirements.

Advanced capitalist states are the most important components of superstructures, and political borders are thereby inscribed in the legally-defined production relations (Rosenberg, 1994a). To explain these jurisdictions materialistically requires an account of how they have promoted productive power. In some crucial respects this is easily accomplished (Gellner, 1983; North, 1990; Krugman, 1995), but the exact demarcations of state borders is much more problematic. It is difficult to imagine that the requirements of the productive forces are the sole causal factor. If it were, there would be no rationale for resisting a deeper pooling of sovereignties in the EU, or for Canada to remain separate from the USA, let alone for the persistence of smaller states like Norway or Switzerland. Obviously, then, the economic fragmentation induced by the system of states is to some extent a restraint on the efficient employment and expansion of the productive forces.

But this is not incompatible with historical materialism. The theory does not claim that prevailing economic systems and superstructures are explainable *solely* in terms of the productive forces, but stresses that both can fetter them when they are defended by conservative interest groups. The current array of state sovereignties can thereby engender inefficiencies and interstate rivalries, which, along with internal class struggles, represent one dimension of the dialectic between the productive forces and the productive relations (Semenov, 1980 and Gellner, 1980). The realist's security dilemmas are not, then, in a conceptual space completely disjoint from Marxist materialism.[8] They are integral to all technological circumstances that have favoured separate jurisdictions, which means throughout human history. However, wars are not the only means of harmonizing the forces and the relations of production. The economies of different states can be integrated through agreement in varying degrees, and today this is sufficiently pronounced in advanced capitalisms for the remaining efficiency losses attributable to the survival of distinct political jurisdictions to be quite small.[9]

It might be objected that our version of historical materialism is really a disguised version of Weberian pluralism, in which there are three dynamics: economic scarcity, political security and cultural identity, always and everywhere present in human history, and irreducible to each other.[10] One can easily make a case for Weber over Marx. While it is reasonable to expect people to prefer more to less productive capacity as the development thesis maintains, this is a *ceteris paribus* claim, and Weberians can argue that other things are never constant. In particular, security fears may override acquisitive drives and bring about superstructures that impede the efficient utilization and expansion of productive power. So too with social consciousness, where the need to find meaning in life can result in religious institutions and behaviours that are economically inefficient (Howard and Kumar, 2002).

We make no attempt here to dispute that this is generally true. Instead, we argue for a more limited position, which is all that we require in order to apply historical materialism to neo-liberalism. What Weberians may believe to be typically the case with regard to human history is not currently operative for advanced capitalisms. The circumstances of the late twentieth century, when neo-liberalism emerged, greatly reduced the significance of the security and identity imperatives as important counteracting forces to the drive for enhanced productive power. By any reasonable historical standard, the current security problems of core states are minuscule,[11] and their economic convergence has been coupled to an immense homogenization of popular cultures (Gellner,1996).

In short, the counter-determinants to technology have been substantially neutralized during the second half of the twentieth century so far as advanced capitalism is concerned. And in the world economy, in politics, and in culture, it is advanced capitalism that really matters. Subject only to the qualifications of section 7, we argue that it will continue to dominate in ever more neo-liberal forms, and that earlier generations of historical materialists, as well as many other social and economic theorists, failed to anticipate this.

3. CLASSICAL MARXISM AND THE DECLINE OF THE MARKET

There were good reasons, or so it seemed to the classical Marxists, to predict the progressive decline of the market. They began their analysis at the deepest level, that of the productive forces. Marx himself had emphasized ever-larger economies of scale and scope, especially in industry but also to some extent in primary production. He believed that this would reduce market transactions by promoting vertical integration. Large producers were thus massively advantaged over their smaller competitors, leading to the increased concentration and centralization of capital. The importance of this factor appeared to be confirmed after Marx's death, first by the emergence of cartels, trusts and monopolies, and later by the Fordist production technologies that so greatly influenced the thinking even of a non-economistic theorist like Antonio Gramsci (1929–35). Farmers, of course, fitted less neatly into this framework (Hussain and Tribe, 1981), but this mattered very little since industry was growing much faster than agriculture and because department I, with a high organic composition of capital and huge economies of scale, was expected to increase more rapidly than department II, where the lower organic composition might prove consistent with the continued survival of some small firms in a more competitive market environment.

Beginning with Rudolf Hilferding in the early twentieth century, the classical Marxists introduced an additional factor contributing powerfully to the centralization of capital. This was the growing importance of finance, and in particular the increasing power of the banks over industrial capital, which mattered for two reasons. Financial capital was itself highly concentrated; hence Hilferding's famous remark that the working class would only need to seize 'the six big Berlin banks' for it to take control of German capitalism (Hilferding, 1910, pp. 367–8). And a 'bank-based' financial system seemed itself to be market-eradicating, relying on personal connections, administrative rules and bureaucratic routines to a much greater extent than was possible in 'market-based' systems where firms depended on the stock exchange and bond markets for investment finance (Pollin, 1995; Grahl, 2001).

Marx was greatly impressed by the application of science to production, and by the growing importance of sophisticated technologies. This formed the basis for many of his 'laws of motion', underpinning his analysis of the falling rate of profit and the expansion of the reserve army of the unemployed. Less clearly stated, but no less significant, was the contribution of science and technology to the suppression of the market. The classical Marxists seem to have assumed that knowledge was a public good, so that its application to production also contributed to the increased importance of the public domain relatively to the private sphere. More explicit was their recognition, which again began with Marx, that state intervention in the capitalist economy was becoming more and more essential in order to deal with the problems posed by the under-supply of all other public goods, from education through sanitation to the conservation of labour power. Thus the state was increasingly forced to regulate the market and to suppress competition in the interests of capital. In the reformist wing of the Second International – Bernstein before 1914, Hilferding and Kautsky after 1918 – this provided the materialist basis for a powerful reform agenda whereby, it was proposed, socialism could be introduced peacefully by the assertion of working class control over the capitalist state.

Their revolutionary critics rejected this as a political strategy, but they did not deny the growing importance of the state. For one thing they placed more stress than the reformists did on the so-called ‘contradictions’ of capitalism, arguing that there was a tendency to increasingly severe cyclical crises, perhaps leading the system towards some form of total economic breakdown. After 1929, especially, the need for macroeconomic regulation at the national level was apparent to virtually everyone, as was the fact that restabilization could only be achieved (if at all) by means of a vast expansion in the economic role of the state. From the Frankfurt School in the 1930s to the French regulationists in the 1970s, Marxists concluded that the Great Depression had put an end to economic liberalism once and for all. And there was also a second, militarist reason to expect a continued increase in state activity. Luxemburg, Bukharin, Lenin and (the early) Hilferding pointed to imperialism as a fundamental source of statification, and all recognized that, since the production of armaments has one predominant customer, it cannot be subject to market forces or the operation of the law of value. Bukharin, in particular, saw the German war economy as indicating the future for the advanced capitalist economies, and was quick to assert the impending death of the market.

So much for the productive forces. Market eradication was also apparent at the level of the productive relations. This was most apparent in the precipitate decline of the petty bourgeoisie as a proportion of the occupied population in advanced capitalisms. Farmers, independent traders, artisans and small manufacturers were all oriented towards the market: buying and selling was integral to their economic life. As petty commodity production was swept aside by big business, this old middle class was replaced by a ‘new middle class’ of clerks, technicians, professionals and intellectuals. For the most part these were salaried workers rather than self-employed. Objectively, if not always subjectively, they were part of the proletariat (Mills, 1951; cf. Hilferding, 1910, chapter 23). Thus, many believed, the engineers were likely to become avowed enemies of the price system, which sabotaged their efforts to rationalize production (Veblen, 1921; Burnham, 1945), and specialists of all kinds tried to impose collective self-regulation of their professional activities to protect standards and incomes from the threat posed by unrestricted competition (Polanyi, 1944; Parkin, 1979; Perkin, 1989).

As for the traditional, blue-collar proletariat, its relationship to the market was also believed to be changing. The prospects for upward mobility into the ranks of the petty bourgeoisie were thought to be increasingly remote as the concentration and centralization of capital proceeded. This would also concentrate the working class, more easily allowing the perception of common interests and facilitating collective organization. Marx had predicted a progressive homogenization of the working class as mechanizsation, deskilling and competition from child and female labour transformed the jobs of previously skilled and privileged adult men. The triumph of Taylorist methods of 'scientific management' seemed to confirm these expectations (Braverman, 1974). With the exception of a small labour aristocracy, working people had little or nothing beyond survival to gain from their involvement in the labour market, which offered scant rewards in terms of differential status or 'wage rents'. Much the same was true of their relationship to the market for consumer goods. Incomes were pitifully low, discretionary expenditure negligible and time too scarce for 'shopping' to be anything other than a chore. And the great majority of the working class had no financial assets at all. A small but rapidly growing section of the proletariat, however, was employed by the state, nationally and locally. Their wages and working conditions were protected, to a considerable extent, from the vagaries of the capitalist labour market. While not a significant competitor with private capital, the state became an increasingly important customer. In this way more and more capitalists derived a large part of their profits from government contracts, so that they, too, were shielded to some extent from the rigours of market competition.

All this was reflected in the superstructure. The law changed; new statutes were enacted to protect labour, and many fractions of capital, from full exposure to the market. The evolution of law in the United States in response to the 'state capitalist' phase that began in the 1930s is described by Chase (1997). Elsewhere, decisions by judges, as well as legislators, imposed new and onerous restrictions on the rights of property owners, provoking bitter complaints from reactionary legal theorists (Dicey, 1914; Atiyah, 1979). We can illustrate this by reference to industrial law in the United Kingdom, where the formerly severe sanctions on trade union activities gave way, from the 1870s onwards, to a legal environment in which union interference with free competition between workers was increasingly tolerated, if not actively encouraged. For the most part this required Acts of Parliament to reverse hostile judicial decisions, culminating in the Trade Disputes Act of 1906, which made it virtually impossible for any capitalist to sue any union or individual member for any non-violent action undertaken in the course of a strike. Even the judges finally relented in their hostility to ‘labour monopolies’, as can be seen by the remarkable judgement of the House of Lords in the 1942 Crofters’ Case, when a union embargo on the supply of yarn to non-union weavers was declared to be a legitimate tactic in the promotion of the membership’s interests. The market for labour power had certainly not been abolished but, as the law now recognized, it had been very substantially civilized and tamed (Wedderburn, 1986).

There were corresponding changes in political institutions, most obviously the growth of the state as employer, customer and eventually as producer. The emergence of the welfare state meant that working-class families in particular derived a growing proportion of their consumption from non-market sources. This was the so-called ‘social wage’, which drove a wedge between work and income and was therefore in a very real sense anti-market. Mass political parties representing the working class grew up to advocate and then to defend these reforms; large unions campaigned for the suppression of competition between workers, and often succeeded in their demands for state regulation of the labour market. Consumer cooperatives challenged the hegemony of market forces in food, clothing and other basic consumer goods. Social democrats regarded all this as welcome progressive reform, as did many modern liberals; Leninists attacked it as a strategy of incorporation designed to blunt the militancy of the working class; reactionaries denounced it as the road to serfdom.[12] All agreed that the market had been dethroned.

Finally there were repercussions for social consciousness. Rather than attempting the daunting task of writing a comprehensive history of ideas over more than a century, we will simply take one important example and highlight the way in which neoclassical economics accommodated itself to the new productive forces and productive relations after 1870. Although marginalist economic theory was both widely interpreted and frequently intended as an assault on Marxian political economy, it also proved attractive to many socialists (Steedman, 1995). Since the marginal utility of a dollar was obviously much greater for poor people than for the wealthy, marginalism could be invoked to justify tax-and-spend policies to redistribute income and wealth. Once the distinction was drawn between private and social benefits and costs, vast possibilities opened up for welfare-improving intervention by the state to deal with externalities and rectify market failures (Pigou, 1920). Even the Walrasian model of competitive general equilibrium was reclaimed by the left: the market-clearing auctioneer was a phantom of the theorist’s imagination, but it could be given flesh and blood in the form of a central planning bureau. Thus general equilibrium analysis was reinterpreted as the economics of socialism, not capitalism (Lange, 1936). Last, but not least, was the economics of John Maynard Keynes, whose great plan to save capitalism from itself required ‘a somewhat comprehensive socialisation of investment’ (Keynes, 1936, p. 378). Small wonder that Communist theoreticians like Keynes’s Cambridge colleague Maurice Dobb drew heavily on orthodox theory in their writings on socialism (Dobb, 1969).

4. WHERE CLASSICAL MARXISM WENT WRONG

There were, however, developments in the productive forces that led in entirely the opposite direction. Many aspects of technical change favoured small-scale production, as Bertrand Russell noted as early as 1949: ‘Electricity and motor-transport have made small units of industry not only economically permissible but even desirable, for they obviate immense expenditure on transportation and organisation. Where a rural industry still flourishes, it should be gradually mechanized, but be left *in situ* and in small units’ Russell (1949, p. 86). This has been reinforced by subsequent innovations in telecommunications and transportation by aircraft. By the 1980s the advantages of ‘flexible specialization’, involving small-batch production for rapidly changing ‘niche’ consumer markets, were increasingly apparent (Piore and Sabel, 1984). The implications became brutally obvious in the centrally-planned economies of the Soviet Union and its satellites, whose initial success had been based on imitation of Fordist technology and management systems. From the early 1970s onwards they fell behind in both economic and military competition, very largely because the new ‘post-Fordist’ technology favoured horizontal links between productive units (and hence market relations) rather than vertical links and the corresponding administrative controls (Howard and King, 2000). Both in the West and in the East, then, Marx’s own belief that trends in technical change were promoting vertical integration and market eradication proved to be false.

Quite early in the twentieth century the growth of industrial output as a share of total production came to an end in the more advanced capitalist countries, and the service sector began to rise in importance until, in some regions, it now accounts for three-quarters or more of output and employment. Talk of a ‘Third Wave’ of economic transformation, or of a ‘New Economy’ comparable to the Neolithic shift from hunter-gather to agrarian society and the Industrial Revolution, is a massive exaggeration (Toffler, 1980). But the expansion of the tertiary sector does pose major problems for classical Marxism, since the arguments for the decline of the market were most applicable to manufacturing industry. This is related to another fundamental change in the productive forces, which is the increasing importance of knowledge in general, and scientific knowledge in particular, as a *private* good. The classical Marxists completely failed to anticipate the growth of private intellectual property, and therefore drew the wrong conclusions from their (quite correct) analysis of the growing application of science to production (Chandler, 1990; Stewart, 1997).

Furthermore, the much increased availability and massively reduced cost of information storage and processing has made possible the marketization of state activities and the introduction of market-mimicking arrangements, both in what is left of the state sector and inside the capitalist firm. New developments in the accountancy of valuing jointly-utilized assets, and in incentive systems for employees, making payments more sensitive to performance, have also promoted this internal commercialization. Simultaneously, vertical disintegration through sub-contracting, franchising and alliances has been boosted. These developments were impossible a century ago, when the necessary monitoring and coordination costs would have been prohibitive (Molho, 1997; Milgrom and Roberts, 1992). Finally, and constituting considerably less than the whole story, there was a dramatic decline in the costs of communication and transportation internationally, which promoted the globalization of production and finance, creating a world market in many goods, services and productive inputs. This is familiar enough to need no great emphasis; indeed, its role is exaggerated in many accounts of the rise of neo-liberalism. But it has been an undeniably important aspect of the change in the productive forces.

Neither did changes in the productive relations proceed precisely as the classical Marxists had expected. For one thing, the petty bourgeoisie survived much longer than anyone had anticipated, partly because the economies of large-scale activity in agriculture and retailing were slow to become apparent, but more especially because of the protection that small business obtained by the astute exercise of its political influence (Berger and Piore, 1980). After 1945, when income tax rates on even modest incomes became increasingly burdensome, there was a limited revival of self-employment for motives of tax avoidance and, as neo-liberalism began to attack the institutions of labour market regulation, further growth in self-employment occurred, this time because it enhanced flexibility for big business.

The relationship of the working class to the market has also confounded the expectations of the Marxists. Instead of occupational homogenization there emerged a complicated pattern of labour market segmentation that went far beyond the traditional labour aristocracy. This tendency had been noted by Bernstein, but it was ignored in the torrent of condemnation that his reformist political agenda brought down upon him. Far from becoming increasingly similar in (lack of) skill, pay and status, the working class was more and more differentiated in the nature of the work that it performed and the rewards that this work provided. To a certain extent this was the result of a conscious 'divide-and-rule' strategy by employers (Gordon, Edwards and Reich, 1982). In very large part, however, it simply reflected the growing complexity of the capitalist economy, which could no longer be viewed as a sort of giant enlargement of the Engels' family cotton mills. The consequence was that working people became more individualistic and less solidaristic. And they did perceive that there was something to gain from active involvement in the labour market: job search and 'human investment' were risky activities, to be sure, but they often paid off in the form of higher wages, improved promotion prospects and better working conditions.

The changing relationship between the working class and the market was not confined to the sale of labour power. Rising real incomes and increased leisure time – both undeniable features of capitalist development in the very long run, if less clearly and universally evident in the last 20 years or so – transformed the position of the proletarian as consumer. One aspect of this was predicted (and welcomed) by classical Marxism: the commodification of domestic labour, which replaced much of the unpaid work of the housewife with goods and services purchased from the market (Jefferson and King, 2001). The rise of mass owner-occupation of housing, however, took them by surprise. Once workers own even a small fraction of the equity in their own homes they become players in financial markets, a tendency reinforced by the enormous post-war expansion of consumer credit and the growth of private occupational pensions to supplement the provision of public pensions by the state. Economic growth and rising living standards have directly brought about the expansion of these markets. Once workers have collateral assets, they gain access to extensive credit, and once they are able to sustain some losses they face enhanced insurance opportunities (Stiglitz, 1994). We do not need to be carried away by absurd visions of a supposedly egalitarian 'stakeholder society' – in fact inequalities in income and wealth have risen substantially in both Britain and the United States since the 1970s – to realize the dramatic significance of these changes. Instead of exposure to markets having a radicalizing effect, as in the past (Polanyi, 1944; Calhoun, 1982), the opposite has occurred. As this growing passivity has been joined to an increasingly acquisitive and privatized life, the rapid decline in trade union membership in most advanced capitalist countries should hardly seem surprising.[13] Workers now behave 'like little capitalists', as Geoff Harcourt put it in a recent personal communication to us, varying their expenditures more rapidly than their incomes and acquiring both assets and liabilities. This has probably contributed to the increasing instability of the system (Howells, 1999); it has certainly transformed the relationship between the worker and the market.

All of this is true, *a fortiori*, of the 'new middle class', which proved to be much more market-oriented than either the classical Marxists or the theorists of 'professional society' had anticipated. The trend towards a growing dependence on the market was strengthened by the great changes in the capitalist state that began at the end of the 1970s and are still continuing. This is partly a quantitative phenomenon that can be documented in terms of the proportions of output and employment accounted for by the state and its agencies (Tanzi and Schuknecht, 2000). Much more is involved, however: a qualitative alteration in the organization and management of state activities, taking a variety of forms (compulsory competitive tendering, sub-contracting, build–own–operate–transfer projects, private finance initiatives) but always including an attack on the concept of public employment as a shelter from the market (Le Grand and Bartlett, 1993). This has gone a lot further in the Anglo-Saxon countries (including Australia, Canada and New Zealand) than in Scandinavia, to cite the two extremes, but the direction of change is unmistakable.

The corresponding changes in the superstructure are equally well-known. The law adapted itself effortlessly to the new constellation of productive forces and productive relations, relaxing antitrust laws and other constraints on corporate actions, offering greater protection for intellectual property rights and undermining collectivism in the market for labour (Roe, 1996). In politics the list would include the decline in trade union power, the transformation of socialist and Labour parties into neo-liberal clones, the greater authority and alleged 'independence' of central banks, and the rise of international economic institutions dedicated to the promotion of the neo-liberal project, from the IMF and the World Bank to the OECD and the WTO (Henderson, 1998).

In terms of social consciousness, we again restrict ourselves to the important case of neoclassical economics, where neo-liberal ideas have been in the ascendant since the late 1960s. In the United States, at least, this process of ideological mutation goes back to the 1940s and 1950s, when institutionalism was expunged from academic economics and faith in the market mechanism began to revive (Morgan and Rutherford, 1998). But it was in the 1960s that the 'neoclassical synthesis' of Keynesian macroeconomics and Walrasian microeconomics gave way first to monetarism and then to new classical macroeconomics and 'real business cycle' theory, all insistent on the underlying stability of the private sector and hostile to the discretionary use of fiscal or monetary policy to increase output and employment. The development of the new area of public choice theory emphasized 'state failure' as being a much more dangerous prospect than the market failures that had been stressed by earlier generations, with government intervention now viewed as the primary cause of inflation and as a major source of inefficiency, rent-seeking opportunism and bureaucratic waste (Mueller, 1997). The Coase Theorem purported to show that all externalities can, under appropriate assumptions, be internalized, so that redefinition of property rights made it possible for efficient market contracts to replace the battery of regulations, subsidies and taxes that was required by Pigovian welfare economics. Even the previous general acceptance of the need for antitrust laws and close regulation of monopoly power succumbed to a Panglossian belief in the efficacy of potential competition in what were believed to be normally 'contestable markets' (Chase, 1997). These were the ideas that influenced Margaret Thatcher and the circle of advisers around Ronald Reagan in the period leading up to their election triumphs in 1979–1980, and they have since then gone from strength to strength (Cockett, 1994; Henderson, 1998).

5. THE PROBLEM OF TIMING

Our argument, to repeat, is that neo-liberalism was the product of a long period of development of the productive forces and associated changes in the productive relations, which transformed the superstructure and had profound effects also on social consciousness. The causation was not, of course, all one-way. Neo-liberal economists and the think tanks they dominated undoubtedly exerted an influence on government policies, and this in turn led to further changes in the productive relations in a market-enhancing direction. It would, however, be a grave mistake to go as far as Pierre Bourdieu and Goran Therborn, who appear to regard the rise of neo-liberalism as a result principally of re-energized neoclassical economic ideas (Bourdieu, 1998, Therborn, 2001). The core of our argument is that the victory of neo-liberalism has very deep roots in the productive forces and the productive relations; it is much more than the triumph of an idea, or a historically specific policy response by ruling classes to a particular set of socio-economic difficulties.

This points to a potentially serious objection for our interpretation. If we are right, the changes in the economic base that we have outlined go back a very long way, sometimes to the second half of the nineteenth century and certainly well beyond the crisis years of the 1960s and 1970s. This is confirmed by the burgeoning literature on pre-1914 globalization (Held et al., 1999; O'Rourke and Williamson, 1999). Why, then, was the rise of neo-liberalism delayed? Why was the market in decline for so much of the twentieth century? Changes in productive relations, superstructures and ideologies can be expected to lag behind developments in the base, but surely not to this extent. The relevant changes in the productive forces probably did accelerate after 1945, and again towards the end of the century, but this is only part of the answer. More important, we suspect, was the retarding influence of the three catastrophic events of this 'age of extremes': the two World Wars and the Great Depression.[14]

We have already referred to the Great Depression several times, but even the substantial changes it inaugurated have been overshadowed by role of the two wars, which massively increased the power and functions of the state in all the major capitalist countries. This was no accident. Market contracts often have to be very detailed, specifying obligations and remunerations over a wide variety of future circumstances. And the more detailed they are, the higher the transaction costs in time and resources. Not surprisingly, free markets have usually been considered unsuitable for organizing activities in times of war, when the range and depth of possible contingencies increase massively. The greater risks dramatically raise both the length of the period required freely to negotiate contracts and the resources used in doing so. As a result, centralized coercive authority, bureaucratic administration, and resource allocation through command were extensively employed in the two World Wars, which also restricted and fragmented trade and capital flows and thereby produced a deglobalization of economic life. Total war encouraged the expansion of precisely those industries – steel, chemicals, heavy engineering – where the economies of large-scale production were greatest, and competition least viable. It also promoted national, inter-class coalitions in which welfare state provisions were offered in exchange for patriotic commitment by the working class. The conscription of individuals into the military, the requisitioning of assets, large increases in taxation, and restraints on the use of bargaining power by labour in conditions of full employment, were accompanied by a vast growth in governmental responsibilities for citizens' well-being: comprehensive price and rent controls, the rationing of necessities, support for families of combatants, and extensions of social programs. So much so, in fact, that many elements of the welfare state have their origin in war (Mann, 1988; Porter, 1994).

The Bretton Woods system and the (first) Cold War maintained the importance of these structures and programmes for several decades after 1945. The international monetary arrangements initially promoted economic growth in advanced capitalism through the protection of nationally-specific institutional complexes, while at the same time facilitating rapid increases in international trade through the GATT. But this very success made it more difficult to sustain the variety of national political economies. European and Japanese capitalism substantially converged on North American productivity levels, making the novel organizational devices through which this had been achieved less capable of generating future growth. Once an economy is near the technical frontier, non-market resource allocation mechanisms are much less productive. And success also strengthened private capital, which recognized that profitability depended more and more on loosening controls. But even without this heightened power of business, state regulation, particularly the regulation of exchange rates, on which much else hinged, came under strain. It proved impossible to insulate international financial markets from the effects of expanding international trade. With large export and import flows, there was necessarily more trading in currencies. In addition, it was easier for companies to siphon proceeds into offshore, and substantially unregulated, financial havens. Rates of return were higher than those in heavily-regulated domestic markets, and speculation on currency values could be especially profitable, even though it had system-destroying consequences.[15]

Simultaneously, there were other emerging strains on the home front in many advanced capitalist countries. As we have emphasized, depression and wars tend to weaken capital politically, and strengthen both labour and state bureaucracies. After 1945 this was evident in the expansion of the welfare state, which involved incentive structures that were at variance with those of markets. Income support payments were divorced from productive contributions; schools, hospitals and universities were insulated from competition; and secure life-time employment in public bureaucracies was expanded. Thus, unless some substitute for market discipline was implemented, the chances of economic malfunctioning were high.[16] In this sense the crises of the 1960s and 1970s were important in triggering a neo-liberal offensive on the part of political elites in many advanced capitalist countries. But this only accelerated changes that were inevitable in any case. To put it slightly differently, unless market relations had been most appropriate for the development of the productive forces, these political changes could not have been sustained.

The first Cold War, too, initially acted to sustain the changes induced by the Great Depression and two world wars. But, especially with the defeat of the United States in Vietnam, changes in military organization and weapons technologies worked to reduce the influence of war, and the preparation for war, in advanced capitalism. Mass mobilization and conscript armies have been substantially eliminated, to be replaced by career professionals. The economic base required by modern weaponry has progressively shrunk to ‘high tech’ sectors as the era of industrialized war fighting has passed (Freedman, 1998; Friedman and Friedman, 1996). Furthermore, the stagnation of the Soviet bloc from the 1970s, and its disintegration and collapse in 1989–1991, allowed the historically specific character of American hegemony to emerge in purer form and with a more extended scope. Typically, US dominance works in a very different way from that of classic imperialism. It functions primarily not through colonization and extra-economic coercion,[17] but via a system of formally sovereign polities and globalized markets, governed by a network of military alliances and supranational regulatory agencies in production, trade and finance.[18] This makes it more purely capitalist than any other type of international regime, so much so, in fact, that many liberals would deny that it constitutes a form of domination at all. Since the debt crises of the early 1980s in Latin America, US power has been exercised repeatedly on backward capitalism to deepen and extend its incorporation into the world market, and after 1989 this has been done on a global scale

(Howard and King, 2000). Thus neo-liberalism – under the title of the 'Washington Consensus' – has been exported worldwide.

6. THE CONTRADICTIONS OF NEO-LIBERALISM

At this juncture it is useful to summarize what we have argued to be true of neo-liberalism, and also outline what we have *not* argued to be the case. This will allow us to identify more accurately the contradictions of the specifically neo-liberal variant of capitalism. By a contradiction we mean a malfunctioning that arises from the economic relations that typify the economic system in question. In the case of neo-liberal capitalism, the term refers to those problems that stem from its characteristic methods of extending and deepening marketization. By their very nature, contradictions cannot be eliminated without changing the type of system from which they emanate, although measures of reform designed to reduce their severity may be feasible. As such, contradictions are potentially very powerful sources of systemic change.

So far, what we have said in the preceding five sections of this chapter can be reduced to four points. First, we claim that neo-liberalism in advanced capitalisms has a technological foundation, which is of long standing, and the recent developments in information technology have continued it. Second, the delay in implementing neo-liberal policies reflected the strength of counteracting forces, primarily the collectivist requirements induced by the breakdown of market coordination in the 'age of extremes' as a result of total war and depression. Third, all the principal schools of economics failed to forecast neo-liberalization. This is true *inter alia* of neoclassicals, Keynesians, institutionalists, Austrians and Marxists. But the Marxists at least – and this is our fourth point – got their predictions wrong for the right reasons. As historical materialists they correctly privileged technology as a determinant of economic relations, political structures and social consciousness, but they wrongly diagnosed the dominant trend in technological progress to be market-eradicating rather than market-promoting.

What we have *not* argued is that technological determinism and its major countervailing factors of war and depression are all that there is to actual historical processes of neo-liberalization. In other words, we have *not* maintained that these matters exhaust causation, and that there were no subsidiary currents at work. In particular, we would deny that actual privatizations, deregulations, retrenchments and 'modernizations' have always been optimal responses to a technological imperative. Here there have been gross policy errors, of which the privatization of British Rail is perhaps the most infamous.[19] Nor do we argue that neo-liberalization is part of a 'race to the bottom' in tax rates and associated public services, or that the modern states of advanced capitalism are losing their essential powers to 'the market', although there may be some truth in both these claims.

In order to clarify these matters it is helpful to distinguish analytically between four phenomena: neo-liberalism proper, the interests of capital as a whole, the interests of particular fractions of capital, and the intensification of anti-statist propaganda, along with the celebration of 'business', in the media (Burden and Campbell, 1985). All too frequently these are run together as if they were necessarily united or are really the same thing. The inappropriate privatizations, deregulations, managerial incentive schemes and public–private partnerships can then be classified as integral to neo-liberalism, which is presented as nothing more than a giant confidence trick or a series of crass mistakes.

That there have been multiple malpractices associated with the implementation of neo-liberal policies is indisputable. The public sector has been looted via the privatization of natural monopolies; shareholders have been defrauded by corporate executives creating misinformation or acting on inside information for their own benefit; the implicit contracts of workers have been unilaterally terminated by managers; and the regulatory processes have been captured by business organizations to yield enhanced market power with which to fleece consumers. In our view, though, these are principally the result of the elevated power of particular fractions of capital, especially corporate executives, which is distinct from measures concordant with the interests of capital as a whole. As such, they are remediable within the context of capitalist economic relations and, indeed, will themselves engender strong movements of reform in such a context. In other words it is feasible to clean up the system so that these abuses are significantly reduced, while measures required by the interests of capital as a whole obviously cannot be changed with the same ease while capitalist relations of production prevail.

In normal circumstances the rule of capital cannot be avoided completely and is usually amenable only to moderate adjustments and qualifications. It functions as the dominant influence politically to the degree that the decisions of the state are broadly consistent with the *class* interest of capitalists within its jurisdiction. This interest can be summarized in many ways; for example, in growth terms, as the expanded reproduction of the system at a maximal rate; or, in distributional terms, as maximum sustainable profitability. And what is required to realize this class interest varies with the development of capitalism. In any advanced economy today large public expenditures devoted to education and perhaps also to healthcare are essential to maintaining or enhancing productivity, and so therefore are the bulk of welfare state activities.[20] The issue of neo-liberalization here primarily concerns their mode of organization and delivery, not the overall level of provision. However, what is out of accord with the interest of capitalists as a class, and thus with the rule of capital, is the ability of specific capitalists and managers to prosper through degraded accounting standards, excessively weak regulations, personal gain from using inside information or manufacturing misinformation, eroded taxation capacities and budget cutting that impairs infrastructure. All of these practices retard economic growth and long-run profitability.[21]

The threat posed to the rule of capital from its own functionaries has long been evident to economists. Adam Smith warned of them at some length in 1776 and for essentially the same reasons as Joseph Stiglitz does two centuries later.[22] They stem ultimately from capitalist acquisitiveness linked to structures and procedures facilitating individual opportunism, including the limited liability that defines corporate organization. Thus to classify them as contradictions of the specifically neo-liberal variant of capitalism would be a mistake. Nonetheless, it is probable that at least some of the threats are more pronounced in liberalized capitalism insofar as the regulatory forces, especially distinct, professionalized and protected state bureaucracies, are attenuated. Thus one might expect neo-liberal capitalism to malfunction on this score rather more than its ‘organized’ predecessors.

This expectation is significantly reinforced by considering the neo-liberalization of finance. The Great Depression, two world wars, and the requirements of post-war recovery in the context of the Cold War induced public authorities in all advanced capitalisms to segment financial markets and require financial institutions to specialize in particular segments. Each had well-defined and separated functions, and there was a dense body of regulations, and large numbers of regulators, to specify what could and could not be traded, and on what terms. From the viewpoint of orthodox microeconomics, inefficiencies abounded, both allocationally and motivationally. There were serious distortions in resource allocation and a dulling of market incentives. But from a macroeconomic perspective the system helped preserve stability by limiting fraud and constraining speculation. And it is here that neo-liberalization is most clearly contradictory. Malfunctioning occurs not simply as a result of contingencies and external shocks, but from the very nature of the economic relations themselves. This is evident in the successive waves of financial crises that have occurred since the 1970s. All have been the product of one or another form of financial deregulation.[23]

We return to this issue in more detail in the following section, where we argue that the central contradiction of the specifically neo-liberal form of capitalism lies in the financial sector. If neo-liberalization is reversed, the most likely cause will be deregulated financial practices. And, of course, this would not be a wholly novel phenomenon. The crash of 1929, and the ensuing banking crises, were pivotal in bringing about the Great Depression, and the delicate nature of laissez-faire finance was a crucial building block in

Keynes's new economics that subsequently underpinned the organized capitalism of the post-war years (Skidelsky, 1992, 2000).

7. AND THE FUTURE?

It would be most unwise for us to offer unconditional forecasts concerning neo-liberal capitalism. The past is littered with foolish predictions of an assured future for trends that turned out to be short-lived and easily reversed. Nonetheless, our argument is sufficiently definite to yield some clear conditional implications. The most obvious prospect is an extrapolation from the recent past: neo-liberalism continues to expand, occasionally suffering some limited setbacks and reversals, but generally mopping up the remaining pockets of resistance. If not, why not? Five answers to this question are worth serious consideration: technical change might become market-eradicating; environmental degradation might represent a significant fetter on the productive forces; mass political opposition might be provoked; serious and prolonged economic crises might recur; and major wars involving advanced capitalist states might return, with extensive mobilization of resources and personnel.

Market-eradicating Technical Change

The arguments of socialists concerning the feasibility of transcending capitalism hinged on the concentration and centralization of capital. This would induce increased vertical integration, which reflected a decline in the efficiency of coordination through markets. Today we can see that each link in this chain of reasoning is weak. Concentration and centralization of capital does not imply increased vertical integration, and vertical integration does not mean that markets and market-mimicking devices wither away. Thus, if technical change does not exhibit a market-eradication bias, the microeconomic efficiency of further commodification will not be threatened, nor will the neo-liberalization required by it. Currently, innovation is all in the direction of continuing neo-liberalism: cheaper transportation and communications; the expansion of services and decline of manufacturing; lean production arrangements; customization of mass production; the end of Fordist organizational structures; and the development of auctioning techniques for privatizing state activity (Castells, 1996, 1997, 1998).

Environmental Crisis

Even if all this remains true, there could still be a reversal of neo-liberalism because of a crisis at the level of the productive forces. In other words, a systemic imperative could override the continuing microeconomic efficiency of deregulated market relations. The most obvious prospect is environmental deterioration, and this is indeed a favoured candidate for many conservative opponents of neo-liberalism (Gray, 1998; see also Goldsmith, 1994). For the most part, however, they are strong on apocalyptic rhetoric and very weak on convincing analysis. Those claiming to forecast the future condition of the global environment have an even worse track record, to the extent that these things can be measured with any degree of precision, than the most naive econometrician. Where would we all be now if the Club of Rome had been correct 30 years ago (see also Williamson, 1945)? This is not in any way to deny the potential seriousness of humanity's impact on the ecosystem that it relies on to sustain it. Global warming, resource depletion and the annihilation of species are real enough. But it is necessary to distinguish a world that is increasingly unpleasant and dangerous to live in from one in which neo-liberal capitalism cannot function. Indeed, environmental crisis could reinforce neo-liberalism by increasing marketization, through the use of exchangeable pollution permits, auctioned harvesting licences and similar devices. For the devastation of the planet to become a fetter on the productive forces, and to roll back neo-liberalism, a much deeper environmental crisis is required than is currently apparent.

Political and Social Crisis

At the level of the productive relations, the conditions for mass opposition to neo-liberalization are clearly absent. In advanced capitalism, the working population is ever more segmented by occupational diversity and intensified competition and union organization is in sharp decline. Furthermore, some degree of labour market regulation remains, offering protection to workers from the full rigours of competition, while social welfare programmes for the vast bulk of people continue, albeit at a reduced level. Superstructural change has reinforced all this. Liberal democracy allows policy adjustment to occur in the face of most expressed discomforts; most left-wing parties are fully neo-liberalized; and previously autonomous groups in civil society – universities, churches, professional associations, and the media – have all been subordinated to the discipline of the market.

Again, though, a systemic crisis might cause a reversal of neo-liberalism. This, too, is a conservative favourite.[24] As with environmental degradation, it is not difficult to identify the signs of social disintegration as neo-liberalism advances relentlessly across the globe. Destruction of community, loss of social capital, increased alienation at work and in leisure, rising drug use, growing crime, the collapse of traditional family structures and the prevalence of less orthodox human relationships – all this can be documented, and nearly all of it can be attributed (at least in part) to the rise of neo-liberalism. Moreover, there are associated economic costs, since the security guards and social workers who are needed to pick up the pieces could have been employed more productively elsewhere. However, it is debatable whether social decay really represents a fetter on the productive forces. We suspect that, like any emerging environmental crisis, it does not, since the same objections apply. Prediction is extremely hazardous (think of the recent much-vaunted and quite unexpected decline in crime statistics in the United States), and a distinction must be drawn between social problems and systemic contradictions, since, from the perspective of historical materialism, only the latter count against the viability of neo-liberal capitalism. Moreover, any disorder disrupting the economy might provoke even more neo-liberalization, in order to intensify discipline through the market, as it did after the 1960s.

Financial Crisis

Much more threatening would be a financial crisis, precisely because it would induce disruptions in production and social relationships that could not be countered with intensified neo-liberalism. Financial markets are unique in being pervaded by debt claims and substantial price volatility, making them especially prone to generating bankruptcies and the deflationary effects that follow from them, unless countered by state controls and the 'lender of last resort' facilities provided by central banks. The Post Keynesian writer Hyman Minsky set out an influential model of endogenous cyclical variations in the degree of financial fragility (Minsky, 1982; Dymski and Pollin, 1994; Kindleberger, 2000). In Minsky's 'Wall Street' vision of capitalism, instability is generated by fluctuations in companies' financial commitments, compared to their financial resources. As a boom proceeds, debt increases relatively to profits and also degrades in quality, so that the financial structure of the economy becomes ever more fragile. The ensuing bankruptcies and fire sales of assets lead to a sharp contraction in overall economic activity.

Minsky (who died in 1996) was not a prophet of doom. On the contrary, he identified a number of significant changes to the post-war economic system that made it much less likely that a major depression like that following the 1929 stock market crash would happen again: the big increase in government expenditure and the resulting automatic fiscal stabilizers; the growth in public debt and therefore also in the volume of risk-free government securities held by the private sector; and the willingness of the Federal Reserve and other central banks to act as lenders of last resort. But all of these changes have been jeopardized by the neo-liberal 'retreat of the state', with its attack on government expenditure, opposition to stringent regulation of financial intermediaries, resistance to budget deficits and restrictions on the international mobility of capital, and suspicion of the supposed moral hazard inherent in the lender-of-last-resort role of central banks and the IMF. These changes have brought a massive increase in debt and asset price fluctuations (Shiller, 2000; Clayton, 2000; Pollin, 2000). Moreover, neo-liberal reforms have engendered ambiguity as to what means of payment comprise money, what organizations function as banks, and what constitutes the relevant measure of inflation, all implying that monetary authorities have much less power than in the past to contain a financial meltdown. Financial instability is now a much more plausible contender for the role of fetter on the productive forces than at any time since the early 1930s.[25]

War

Wars and their associated mass mobilizations have been counteracting forces to economic liberalism for most of the twentieth century. But their restraint on the marketization of economic activity has been declining. Furthermore, peace between advanced capitalist states might be permanent if the destructive power of modern weaponry is sufficient incentive to override fully the logic of the security dilemma by shifting sovereignties to transnational institutions. However, there are two reasons for believing perpetual peace to be no more likely in the future than in the past. Capitalist systems are still fragmented by separate jurisdictional sovereignties, and the absence of serious conflicts between leading capitalist states since 1945 has been an aberration, brought about by the hegemony of the United States, to which any serious challenge would have been self-evidently futile. If the past is any guide, American dominance is unlikely to be sustained indefinitely: no hegemony has been permanent, and change has often come through violence (Gilpin, 1981; Kennedy, 1988; Howard and King, 2001). On this view increasing international tensions will spill over, sooner or later, into armed conflict. This need not involve the United States or the European Union at first: one does not need to embrace Samuel Huntington's notion of civilizational conflicts to recognize that war between India and Pakistan, for example, or China and Japan, or armed groups seeking dominance in parts of the former Soviet Union, could very quickly engulf the entire world (Huntington, 1996). The final chapter in the history of imperialist conflict may not yet have been written. Even less dramatic hostilities, however, are likely to exercise an eroding influence on neo-liberalism. There will be, necessarily, some deglobalization of economic life, and threats to the destruction of people and property must promote more regulated and collectivist modes of production, allocation and distribution. Furthermore, because wars tend to induce 'state breakdown' amongst the losers, the prospects for revolutions may well strengthen.

If any of these scenarios emerge, it is likely that neo-liberalization will be rolled back to some extent, with enhanced constraints placed upon property rights and market processes, while traditional forms of state activism are rejuvenated. But our argument implies that these changes will prove unsustainable unless they reflect a chronic fettering of the productive forces or an enduring militarism. Even a massive crisis will not end the drive of neo-liberalization over the *longue durée* unless it is associated with market-eradicating technical change, or unless it permanently brings economic depression or reinstates the military imperatives for mass mobilization. All this is true *a fortiori* for the more mundane forms of crisis, especially financial crises. In the near future these do represent a significant threat to continuing neo-liberalization, precisely because they are most likely to result from those neo-liberal changes that have already occurred. But in the long run, we suspect, the logic of historical materialism will reassert itself.

8. SUMMARY AND CONCLUSIONS

Our account of the rise of neo-liberalism is unique and dramatic. We have argued that political and cultural factors have been subsidiary to the principal causal force, which is technological. Moreover, we claim, the roots of neo-liberalism reach deep into the twentieth century, and are not simply the outgrowth of more recent developments in computing or communications. Neo-liberalism was only delayed by the impact of two world wars and the Great Depression, which deceived many into thinking that the temporary eclipse of the market that was induced by these events reflected much deeper long-term tendencies in advanced capitalism. Understanding this, we believe, is crucial for assessing current attempts to enhance neo-liberalization and globalization, and also for comprehending the prospects of movements seeking to redirect or reverse them.

Failure to anticipate the rise of neo-liberalism constitutes a significant indictment of virtually all schools of economics and political economy. This, in turn, reflects a broader deficiency in the social sciences. Nowhere have they lived up to the expectations of their founders, and they have never come close to emulating the success of the natural sciences. We suspect that there may be a materialist explanation for this, in addition to (and probably much stronger than) the fashionable cultural analyses that emphasize the socially constructed nature of both the subject matter and the theorizing. Because technology is so causally powerful for economies, polities and cultures, its predictability is crucial. But there are good epistemological reasons why the properties of new technologies can never be fully anticipated. In future research we intend to focus upon the question of where and when economic knowledge is possible.

NOTES

1. See, for example, Overbeek (1993).
2. See Gowan (1999) for a good account of the restructuring of US hegemony.
3. Howard and King (1989, chapters 13–14; 1994).
4. Roemer (1994); Gintis (1998). See also Bowles and Gintis (1998) and Douglas (1993).
5. See the comments by Egon Matzner in King (1995), pp. 235–6.
6. See, for example, Olson (2000); Lal (1998); and Rose-Ackerman (1999).
7. For some explanations of backwardness broadly consistent with historical materialism, see Howard and King (1999).
8. For a wider ranging treatment of international relations see Rosenberg (1990a, 1990b, 1994a, 1994b, 1996, 2000) and Bertram (1990).
9. This highlights a significant indeterminancy in historical materialism. What exactly are the circumstances in which the dialectic between the productive forces and the productive relations will involve violence? When will cooperative forms of coordination prevail? The same problem also applies to internal disputes, whether or not they are characterized as class struggles. See Howard and King (2001) and Howard and Kumar (2002) for an attempt to reduce the indeterminancy.
10. This argument can be made in various ways. See, for example, Gerth and Mills (1948); Bourdieu (1985); Mann (1986, 1993); and Gellner (1988).
11. This text was first written in August 2001, and, as of June 2002, we see no need to revise it in any radical way in the light of September 11th. Even a significant increase in the perceived security threat to advanced capitalist states is unlikely to reverse the neo-liberal tide, as we argue in sections 5 and 7.
12. For Friedrich von Hayek (1944), writing despairingly during the Second World War, almost everyone was now a socialist; a decade later Anthony Crosland (1956) celebrated the disappearance of capitalism.
13. Baudrillard (1970); Hirsch (1976); Bowman (1996); Ger and Belk (1996).
14. The terminology 'age of extremes' is that of Hobsbawm (1994) .
15. Speculation is a zero-sum game, where gains balance losses. But, under the Bretton Woods system, central banks were mandated to defend currency values, so creating the possibility of net gains for the private sector at the expense of the public sector.
16. Polanyi (1944); Hirschman (1970); Olson (1982); Skidelsky (1995).
17. Chomsky (1991) documents how it reverts to these forms when required.
18. Gowan (1999); Held et al. (1999); Howard and King (1999); Rosenberg (1994a).
19. See Monbiot (2001) for other examples.
20. Retrenchments in the welfare states of advanced capitalisms have been overwhelmingly concentrated upon welfare expenditures and social services to the poor (other than imprisonment). See for example, Piven and Cloward (1993); Pierson (1994); and Garland (2001).
21. Were this not so, the transition to capitalism in the former Soviet Union would have been brilliantly successful.
22. Smith (1776), volume II, pp. 264–5; Stiglitz (2001).
23. Some of the problems undoubtedly were intensified by orthodox neoclassical economics. For example, if the efficient market hypothesis were correct, stock option incentive schemes for corporate executives would generally have worked as intended. But the efficient market hypothesis is false. It assumes that expectations are founded on, and *only* on, rational assessments of market fundamentals, so that they cannot be manipulated by managers in order to drive up stock prices artificially. The efficient market hypothesis also fails to recognize the bootstrap factors stressed by Keynes, which, quite independently of managerial opportunism, can divorce stock prices from fundamentals. The intellectual source of both errors was the construction of models where rational expectations are joined to the assumption of markets operating 'as if' there were a single representative agent. See Kirman (1992).
24. Gray (1998); Goldsmith (1994); Fukuyama (1999); Putman (2000). See also Polanyi (1944).

25. Krugman (1999); Woodall (1999); Warburton (2000); Mayer (2001); Shiller (2000); Gilpin (2001); Pollin (2000); Eatwell and Taylor (2000).

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Preface to Chapters 4 and 5

Ben Fine

The two of my papers included in this volume mark the progress made over the short period of three years that separates them in an ongoing study of 'economics imperialism', the colonization of the other social sciences (and political economy) by mainstream economics. The first was inspired by a wish to understand how two authors, Becker and Bourdieu, from different disciplines and with radically different methodologies and ideologies could share use of the term 'social capital'. As reported in the second, this gave rise to a continuing study of the topic in its own right, Fine (2002 and 2003) most recently.

The second chapter, though, is wider in its scope and also shifts in focus to examine in what sense the latest, and most virulent, phase of economics imperialism represents a shift in paradigm from a Kuhnian perspective (even though this perspective is itself open to question). The chapter also begins to address the factors that have prompted the latest phase of economics imperialism and allow it to have a different impact in content and depth by topic and discipline.[1] One important conclusion is that outcomes are far from predetermined, not least because of the renewal of interest in the political economy of contemporary capitalism across the social sciences. In very different ways, with very different consequences, for example, this renewal is marked by the meteoric rise of interest in 'globalization' and, to a lesser extent, social capital. Thus, with a renewal of political economy across the social sciences confronting a virulent strain of economics imperialism, outcomes will depend upon the intellectual integrity with which the dismal science is combated. *International Papers in Political Economy* have provided the basis for alternative perspectives to those emanating from the orthodoxy, thereby serving the cause of political economy *and* social theory more generally to an extent that can only strengthen with the passage of time and dispute.

NOTE

1. Further work on this can be found on website, http://www2.soas.ac.uk/Economics/econimp/econimp1.html

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4. From Bourdieu to Becker: economics confronts the social sciences*

Ben Fine

1. INTRODUCTION

Interdisciplinary research is prospering as never before. This is even so for economics, which is traditionally the least amenable to collaboration with other disciplines. From within the perspective of its own orthodoxy, economics is scientific in view of its mathematical formalism in model-building and its heavy reliance upon statistical testing. By contrast, for other disciplines, the methodology, methods and assumptions of economics have generally been perceived as both alien and unacceptable.[1]

It is time to stand back and take stock of the shifting relationship between economics and the other social sciences. Elsewhere, I have argued that it is potentially experiencing a revolutionary change, with economics colonizing the other disciplines as never before.[2] This is most marked in the case of rational choice theory through which the 'economic approach' is extended to all areas of life. In other words, social theory is reconstructed, and reduced to, the aggregated behaviour of otherwise isolated optimizing individuals.

Such colonization is longstanding and is well represented in the work of Gary Becker. He is strongly associated with human capital theory, the new household economics, the economics of crime, the new political economy, the economics of addiction, and so on.[3] What is relatively new, however, is that internal developments within economics have provided new techniques by which it can colonize social theory. In particular, mainstream economics now has models in which it putatively explains the formation of social or economic structures, institutions and customs on the continuing basis of individual optimization. Where there is imperfect or asymmetric information, or transactions costs around exchanges, a rationale can be constructed for otherwise isolated individuals to impose structures or coordinate with one another on a voluntary basis. Significantly, this has given rise to the notion of *social* capital within the work of Becker. He sees it as a generalization of *personal* capital (freely chosen experiences) which is itself a generalized form of *human* capital (which is confined to education and skills).

Human capital has, over a number of decades, found its way into the lexicon of social theory even though it was deeply criticized when first mooted.[4] Social capital has sprung to prominence and widespread use much more quickly. This reflects a number of factors. First, social capital has not simply passed from economics to the other social sciences, it has also been given life from within these other disciplines. Second, the intellectual climate of the current period is one of uneven retreat from the excesses of postmodernism and its subjective construction of the social as meaning. Consequently, there is a wish to return to scrutiny of material realities and, where the economy is concerned, the notion of social capital provides a convenient tool for this purpose.

Third, also in part as a consequence of postmodernism, social theory has found eclecticism to be more acceptable. Arguments and concepts can be picked up from different sources and combined without regard to their separate, let alone their mutual, consistency. Indeed, the point is well-illustrated by the term 'social capital' itself. As has been observed in recent surveys of the literature,[5] themselves a mark of the concept's rapid rise to adolescence, social capital is used ambiguously and chaotically. Equally important though, one of these surveys, rather than rejecting the notion altogether, suggests a more positive approach that can only intensify the problems involved (Woolcock, 1998, p. 159):[6]

> Where do these criticisms of the idea of social capital … leave us? Short of dismissing the term altogether, one possible resolution of these concerns may be that there are different types, levels or dimensions of social capital, different performance outcomes associated with different combinations of these dimensions, and different sets of conditions that support or weaken favorable combinations. Unraveling and resolving these issues requires a more dynamic than static understanding of social capital; it invites a more detailed examination of the intellectual history of social capital, and the search for lessons from empirical research that embrace a range of any such dimensions, levels, or conditions.

The initial purpose of this chapter is twofold. First, it seeks to examine how diverse analytical traditions have been brought together around the notion of social capital. Section 2 argues that the structure and movement of capital itself promotes ambiguity and illusion in the way in which it is perceived. Section 3 applies these insights to the work of Pierre Bourdieu and his understanding of social capital. Section 4 undertakes a similar, if more limited, exercise for James Coleman, a sociologist in the Becker mould. Whilst Bourdieu and Coleman lie at opposite and incompatible extremes of the spectrum in terms of sociological method and theory, their common use of the term 'social capital' has allowed them to serve as authority for a wide range of applications that draws, at times explicitly, upon them both. Some of these, however, draw upon less extreme stances, such as network theory within sociology or collective solutions to market imperfections within economics.

The final section examines the wider use of social capital within other disciplines and sets this against the second and broader purpose of this contribution. This is to examine the extent to which, and how, economics is colonizing the other social sciences through the example of social capital. In particular, reference is made to the rapidity with which it has been applied to problems of economic development.

2. THE ENIGMA AND FLUIDITY OF CAPITAL

One crucial factor in the warmer reception with which other social sciences are prepared to confront economics has been the general analytical environment across them and, in particular, the intellectual climate created by the shift to postmodernism and its aftermath. The intellectual environment over the past two decades has been marked by the influence of postmodernism, although the incidence of its content, depth and rhythm has varied across the different disciplines. As a result, there has been a broad corresponding shift of the balance within methodology and theory across a number of interrelated components. First, subjectivity has advanced at the expense of objectivity, with an associated rise in the appeal of relativism. Second, the economy, especially production, has been perceived to be unduly privileged, leading to a focus upon the non-economic, especially consumption and culture. Third, interest in the so-called new social movements has tended to discredit, and shift attention way from, class analysis. Fourth, novel forms of discourse have arisen, not least in discourse theory itself, with new analytical formalisms in the study of symbolic representation, and in the critical deconstruction of meaning, and so on.

Jean Baudrillard has been a leading figure in the postmodernist movement. In the context of consumption, Fine and Leopold (1993, Chapter 19) have argued that his particular flight of fancy, through the use of the notion of symbolic value, has been based on an exclusive preoccupation with the redefinition of the meaning of the use value of commodities without reference to their material properties, the latter not understood simply as objects with physical properties but as embodying the material outcome of the activities around the production of exchange value.[7] The purpose here is to extend that argument by suggesting how the dependence of contemporary consumption upon the commodities produced under capitalist relations has paved the way for social sciences to be influenced to follow particular directions. Initially, consider what might be termed the fluidity of capital. In terms of

Marx's theory of the circuits of industrial capital, for example, the latter – irrespective of what is produced – successively moves through three different forms, those of money, productive and commodity capital. Associated with each of these forms, a particular corresponding understanding of capital is encouraged – as finance, an instrument of production, or output that embodies a surplus over inputs. In each case, whatever the analytical meaning deployed, capital is understood not only in isolation from its other forms but also apart from the social relations upon which it is based.[8]

A particularly apt and striking example is provided by Becker's (1996) work. For all his attention to human and other types of *capital*, never once throughout his book is the presence of money acknowledged.[9] This is despite money being the primary instrument through which access is gained to consumption and utility. Yet, further, capitalism is unambiguously dependent upon the presence of labour power as a commodity which is exchanged against money (capital). Apart from being dependent upon a labour market, the latter is monetized under capitalism as one of its distinguishing features.[10]

The crucial point that follows is that the failure to recognize and specify the fluidity of capital appropriately leads, paradoxically, to an even greater fluidity in its definition. This is because any recurrence of any one of its forms in any context, rather than in a logical relation to its other forms, is potentially open to misconstrual as capital. For Becker, for example, anything that can yield a stream of utility either directly or indirectly becomes a form of capital. Consequently, and not surprisingly, it is not only the distinctiveness associated with the presence of exchange relations that is extinguished as all human activity becomes one generalized form of exchange, but also capital becomes infinitely fluid in interpretation. As observed, for Becker, apart from physical capital, human capital is divided into the two broad types of personal and social capital, which themselves lead to finer categories such as addictive, imagination, eating, cultural and musical capitals.

Nor is this the end of the matter. For the movement of capital through its circuits does presuppose the presence of, and interaction with, the general economic and social conditions that are its prerequisites. Obviously, irrespective of the extent of mutual determination, the general socio-economic environment can be more or less conducive to the functioning of capital, whether this be the scope and efficiency of the credit, educational or policing systems, for example, let alone the role of the state more generally. Consequently, the fluidity of capital in that it needs to move through its various forms, leads to a conflation between capital itself and the conditions that are necessary for, or beneficial to, it.[11]

The leading example is provided by time itself and the longstanding notion that derives from the marginalist revolution that capital is nothing other than the productivity of time. More generally, anything that can contribute to productivity or efficiency can be understood as capital, whether it be a physical factor – a country has more capital because of a better climate – or, equally significant, one that is socially constructed. The latter constitutes the basis on which Becker understands social capital, something which is ultimately conducive to individual utility through interaction with others, other than through exchange of personal capital alone.

A third aspect in the fluidity of capital needs to be emphasized over and above its movement through various forms in definite socio-economic conditions. Capital is also fluid in the tendency to extend its scope of operations to new activities. Variously known as commercialization or commodification, the boundaries between what is and what is not capitalist production are constantly shifting – most notably, for example, in contemporary patterns of privatization as opposed to many earlier forms of public provision that removed profitability as an operative criterion of production. More generally, household consumption has become increasingly dependent upon commodities as opposed to domestic production.[12] Such fluidity in forms of provision reinforces the ambiguity attached to the notion of capital that has been highlighted in the previous discussion.

The final way in which capital is fluid is in a sense the sum of the three other aspects and, as such, more than the individual parts. Just as because money can buy anything, so it can buy everything and is a general power to purchase, so capital is a general power to command, and serves as a symbol of class and of exploitation. In a word, capital becomes synonymous with capitalism, its functioning within the economy extrapolated more generally to society as a whole, and even to pre-capitalist societies.

In short, that capital is fluid in reality – in its own movement, the conditions to which it is attached, the boundaries within which it moves, and the broader powers that it confers and exerts – is conducive to highly fluid interpretations of what constitutes capital. Broadly, two contradictory intellectual and even popular responses are evident, usually in combination in some way with one another. On the one hand, capital can become understood as almost anything according to the different forms, conditions and scope of activity with which it is embroiled, as is evident in the notions of personal and social capital especially once they are disaggregated. On the other hand, capital becomes specific as one or other of its aspects is perceived to be decisive. For example, in neoclassical economics, capital is routinely understood as the quantity of physical (fixed) capital that gives rise to output through a technically fixed production function. In general, neither of these extremes is all that is involved since, however much recognized, at least the fluidity of capital through its various forms is an object of analysis. How do resources, or the various forms of capital, give rise to consequences such as generating output and utility?

Once recognizing the fluidity of capital between its different forms, there is also a presumption of economic and social structures, not least between production and exchange and between the economic and the non-economic.[13] The necessity of these structures, however, is a consequence of the class relations, between capital and labour, which are reducible to neither the economic nor the non-economic. Without corresponding property, political and cultural relations, the economic relations could not be sustained. Nonetheless, the structures associated with capitalism induce analyses in which the economic and the non-economic are initially separate from one another and need to be brought back together. In addition, there is a blossoming of structuralism in the sense that, wherever difference or inequality is to be found, it is theoretically embraced as a structure.[14]

Consequently, the social sciences are replete with the economic and non-economic examined separately from one another, with each subsequently extended to consider the other. This is apparent in the notion of social capital. However understood, capital and social are broadly associated with the economic and the non-economic, respectively. Having been artificially separated, they are brought back together in this all-encompassing term. By contrast, capital is social from the outset in the economic relations that it encompasses. Any use of the term 'social capital' is an implicit acceptance of the stance of mainstream economics, in which capital is first and foremost a set of endowments possessed by individuals rather than, for example, an exploitative relation between classes.

Bringing together the social and capital, however, has another effect. As will be seen, this gives rise to notions of development and, by implication, change. For individuals, social capital is attached to personal development through environment and nurture; for economies, it increases the growth rate. Such is the impoverished recognition of the much more demanding issues attached to economic and social reproduction, incorporating attention to the relations and structures associated with capitalism. At best, these are understood as a shifting composition of, and interaction between, economic and social capital – around equilibrium growth as far as economists are concerned and with limited historical perspective for non-economists.

Further, capital not only exhibits fluidity, relations, structures, and economic and social reproduction, its existence depends upon satisfying the imperatives of profitability. This gives rise to tendencies and counter-tendencies in the forms taken by productivity increase, proletarianization, urbanization, globalization, commodification, and so on. Such tendencies are readily overlooked in analyses based on social capital for the simple reason that they are taken as the consequences of the more or less functional integration of the social and capital. The uneven and contradictory outcomes of these underlying tendencies are understood as unnecessary effects if only the levels and composition of social capital had been more developmental. In short, just as laissez-faire ideologues believe that the economy is best left without control, so the theorists of social capital believe that it is subject to control to the extent allowed by degree of knowledge and historical contingency.

This discussion paves the way for assessing how notions of social capital might arise. It is now also possible to shed further light on the analytical posture adopted by the most extreme forms of postmodernism. The subjective shift away from the material realities of exchange value into the virtual world of use value is, in addition, an abandonment of the world of capital in all of its fluid, structural, relational and tendential forms.[15] Before commenting on the consequences of this departure from the fluidity of capital to the fluidity of the imagination,[16] it is worth probing in a little more detail what has opened the availability of this point of analytical departure.

First, the flight from capital is of necessity a flight from the economy and, hence, from economics. Consequently, quite apart from its historically inhospitable environment as far as social theory is concerned, mainstream economics has commanded a near monopoly of its subject matter, especially with the declining influence of radical political economy over the past 20 years. In this respect, however, it is crucial to recognize, secondly, that mainstream economics, and much of the heterodoxy, does not have a theory of consumption as such.[17] To be more precise, consumption is treated as if it were production – with individuals maximizing the utility they can produce under the constraints imposed by the price system.[18] At most, the economics of consumer theory is a theory of the demand for quantities of goods. The activities and especially the meanings associated with consumption are simply set aside.

Postmodernism has exploited this duality in economic theory – the appropriation of the economic but the abandonment of consumption. For it has abandoned the economic and appropriated consumption. The one exception that proves the rule is where postmodernism has confronted the economic, as in theories of post-Fordism, neo-Fordism or flexible specialization. Here, we find that deference is paid to the economy without engaging with postmodernist notions of consumption at all, except as fragmented demand. For post-Fordist notions of consumption are confined to the unjustified and unspecified assertion that mass consumption of uniform goods has given way to the demand for fast changing, differentiated and customized products. This suffices to support a particular view of the modern era as one based on new forms of flexible production.[19]

The period of postmodernist preoccupation with consumption and its paraphernalia in isolation from the economic is now past its peak. Yet, in the hands of Baudrillard, for example, it continues to exert an influence. These two points are ably illustrated by contributions such as the aptly named *Forget Baudrillard* in which Rojek and Turner (1993) point out that he is now viewed as a figure of unique importance, subtle and powerful, but equally ludicrous and maladroit.[20] More generally, whatever the enduring influence of postmodernism, it has set the terms for a transition in social theory, or parts of it, in which the economic is to be reintroduced. To illustrate this point, reference will be made to the work of two sociologists at opposite ends of the spectrum, Bourdieu and Coleman. By doing so, it is not being suggested that they are themselves traversing some more general and well-defined transitional path – quite the opposite, each displays intellectual origins and traditional modes of analysis that defy situating them in relation to postmodernism, especially Coleman. Rather, the significance of each is in the influence exerted on the evolution of social science more generally irrespective of and, at times, despite their own particular intellectual histories.

3. BOURDIEU'S DISTINCTION OF SOCIAL CAPITAL

As just indicated, the intention is not to give a full account nor even an overview of Bourdieu's work but to demonstrate how it has the potential to serve as a bridge between the social sciences and, in particular, to support colonization by economics in the flight or transition from postmodernism in its extreme, non-economic form. An appropriate starting point is his use of the term 'capital'. First, he divides it into a number of broad categories – economic, cultural and symbolic – with each of these open to disaggregation in the light of particular activities, as in academic, professional, literary, scientific, legal-economic, philosophical, political, informational, and educational capital. At times, economic capital is simply seen as resources (Bourdieu, 1996a, pp. 83–4), of which the ideal type would be those most readily convertible into money.[21] Cultural capital, which itself has three broad forms (embodied, objectified and institutionalized) (Bourdieu, 1986b, p. 243) is typically marked by socially but differentially recognized and constructed qualifications. Symbolic capital is represented by prestige, as in honour.

There is even a place for social capital which is seen as the extent of connections or networks (Bourdieu, 1996a, pp. 361 and 368; and 1986b, p. 248). A favoured example is provided by the family (Bourdieu, 1996b, p. 292). Thus, a network of family relations can be the locus of an unofficial circulation of capital.

This can give rise to 'an extraordinary concentration of symbolic capital' (Bourdieu, 1996b, p. 79), not least in the marriage potential of children (Bourdieu, 1996b, p. 280). Further, the family serves as a parallel for the social capital embodied within large-scale corporations (Bourdieu, 1996b, p. 286) or in the presumed shift in power from industry to finance (Bourdieu, 1996b, p. 327). In short, for Bourdieu (1987, p. 4):

> In a social universe like French society, and no doubt in the American society of today, these fundamental social powers are, according to my empirical investigations, firstly, *economic* capital, in various kinds: secondly, *cultural* capital or better, informational capital, again in various kinds; and thirdly two forms of capital that are very strongly based on connections and group membership, and *symbolic* capital, which is perceived and recognized as legitimate.

Second, as the notion of capital is consciously and deliberately spread across what are not directly economic categories, so it takes on a more general analytical content, and is specifically attached to the notion of power. Thus, capital and power almost become synonymous, 'whereby the different types of capital (or power, which amounts to the same thing)' (Bourdieu, 1986b, p. 243).[22] As Postone et al. (1993, p. 4) observe: 'Bourdieu's notion of *capital*, which is neither Marxian nor formal economic, entails the capacity to exercise control over one's own future and that of others. As such, it is a form of power.' The concentration of such powers is seen to reside within the state (Bourdieu and Wacquant, 1992, p. 114) in 'a specific capital, *properly statist capital*', confirming the identification of capital and generalized power with one another.

Third, then, capital is not only power in general, it follows that it is power of any type in particular even if subject to classification as economic, cultural, social or symbolic. Moreover capital in its economic form is freely used as a metaphor, and its language and notions are readily deployed.[23] The various types of capital can be understood as assets and accumulated or depreciated. They are subject to cycles, generate returns, are distributed, acquired and inherited. Equally, there is accumulation, preservation (or depreciation), and transformation of the different types of capital (Bourdieu, 1987, p. 4):

> Thus agents are distributed in the overall social space, in the first dimension according to the global *volume* of capital they possess, in the second dimension according to the *composition* of their capital, that is, according to the relative weight in their overall capital of the various forms of capital, especially economic and cultural, and in the third dimension according to the evolution in time of the volume and composition of their capital, that is, according to their *trajectory* in social space.

Fourth, however, because power is relative and not absolute and resources in general are available to all, capital readily becomes identifiable with socio-economic groups or even with all individuals.[24] This is despite Bourdieu's concern to elaborate a theory of classes on the basis of distinction by volume and composition in overall possession of the different forms of capital (see especially Bourdieu, 1987). For there is the issue of the amount of social capital of an agent dependent upon 'the size of the network of connections he can effectively mobilize and on the volume of the capital … possessed in his own right by each of those to whom he is connected' (Bourdieu, 1986b, p. 249), with 'position in the field of power (defined by the structure of a person's capital)' (Bourdieu, 1996b, p. 162). Capital is distributed across all students (Bourdieu, 1996b). Individuals invest time in accumulating cultural capital (Bourdieu, 1986b, p. 253), as in self-improvement (Bourdieu, 1986b, p. 244). The linguistic capital of blacks in the form of their own vernacular is devalued by their subordinate social position (Bourdieu and Wacquant, 1992, p. 143).[25] Women are seen as inferior across modes of production because 'men are the *subjects* of matrimonial strategies through which they work to maintain or to increase their symbolic capital' (Bourdieu and Wacquant, 1992, p. 173). Most clearly, the individualistic basis of Bourdieu's notion of capital emerges in a comparison between those with different portfolios of endowments (Bourdieu and Wacquant, 1992, p. 99):[26] 'Two individuals endowed with an equivalent overall capital can differ … in that one holds a lot of economic capital and little cultural capital while the other has little economic capital and large cultural assets.' More generally, there is perceived to be a hierarchy both of cultural and of economic capital which is symmetrically but inversely distributed (Bourdieu, 1986a, p. 120 and 1996b, p. 158).

Fifth, the attachment of capital to metaphor, individual, resources and power is also conducive to transhistorical use. Thus, for example, aristocratic status deriving from pre-capitalist relations is perceived as a form of social capital (Bourdieu, 1986b, p. 251):[27] 'The title of nobility is the form *par excellence* of the institutionalized social capital which guarantees a particular form of social relationship in a lasting way.'

Bourdieu (1993, p. 272) himself acknowledges that his notion of capital is transcribed from pre-capitalist concerns, with symbolic capital originally derived to explain honour in such societies.[28] Bourdieu (1981, p. 314) also refers to capital to construct a general theory of the power that bureaucrats derive from within the institutions to which they are attached:

> Such agents perform their oblation all the more easily because they have less capital outside the institution and therefore less freedom *vis-à-vis* the institution and the specific capital and profits that it provides … He [a bureaucrat] is predisposed to defend the institution, with total conviction, against the heretical deviations of those whose externally acquired capital allows and inclines them to take liberties with internal beliefs and hierarchies.

Sixth, Bourdieu is concerned with the relationship between the various types of capital, in part as being in conflict with one another, as fractions or within and between agents, but also in terms of how one can be converted into another (Bourdieu, 1986a, pp. 132 and 137; and 1986b, pp. 243 and 252).[29] The motivation for this concern is various – how the artist or aesthetic appreciation retains autonomy (cultural capital) whilst dependent upon material resources (economic capital),[30] what the relative merits are of the forms of capital in gaining employment in public and private management, how the distribution of cultural and symbolic capital gives rise to the reproduction of a hierarchy of tastes and socio-economic positions. Ultimately, however, the language of quantification is employed with an exact analogy to the conversion of one form of economic value to another, as in the '"exchange rate" (or "conversion rate" among the different forms of capital' and 'the determination of the relative value and magnitude of the different forms of power' (Bourdieu, 1996b, p. 265).[31]

These characteristics of Bourdieu's use of capital represent a clear extension of the scope of the concept in response to the fluidity of capital previously outlined. Significantly, for example, whereas Marx views the display of wealth as a necessary condition for the functioning capitalist, an expenditure of revenue distinct from capital, Bourdieu (1986a, p. 287) considers it as a form of symbolic capital itself, seeking to draw upon Marx's authority for analytical support (a sort of legitimising intellectual capital?):

> The members of the professions … find in smart sports and games, in receptions, cocktails and other society gatherings not only intrinsic satisfaction and edification but also the select society in which they can make and keep up their 'connections' and accumulate the capital of honourability they need in order to carry on their profession. This is only one of the cases in which luxury, 'a conventional degree of prodigality', becomes, as Marx observed, 'a business necessity' and 'enters into capital's expenses of representation' as 'an exhibition of wealth and consequently as a source of credit'.

In effect, there is a double fluidity in Bourdieu's notion of capital which is quite independent of the fluidity of capital itself as an economic category. On the one hand, as just illustrated, the notion of *economic* capital lacks depth, precision and rigour. On the other hand, this inadequate concept of economic capital is extrapolated to the other forms of capital even if these are endowed with a distinctive content of their own.[32]

In this light, it is worth examining how Bourdieu's notion of capital differs from that offered by Becker, as it has been suggested here that each has been analytically seduced by the fluidity of capital. Bourdieu and Wacquant (1992, p. 118) consider the issue directly and argue that 'the only thing I share with economic orthodoxy … [is] a number of words'. Although recognizing that economics is a diverse field, he considers that it displays 'all kinds of reductionisms, beginning with economism, which recognizes nothing but material interest and the deliberate search for the maximization of monetary profit' (Bourdieu and Wacquant, 1992, p. 118). This, and other commentary on Becker, as in Bourdieu (1996b, pp. 275–6 and 1986b, p. 255) show that

Bourdieu has not kept abreast with the developments in Becker's own thinking, let alone with those neoclassical economists who are more adept at constructing a theory of social structures and strategies on the basis of methodological individualism.

More specifically, Bourdieu adopts the stance that reference to the social is sufficient to separate him from the reductionism and economism of human capital theory. This is a consequence of his notion that the reproduction and inheritance of social, cultural and symbolic capital is obscured by the processes that take place, for example, within the family.[33] Indeed, it is an irony in Bourdieu's work that his fluid and ambiguous, if not illegitimate, extension of the concept of capital to the non-economic arena leads him to consider that the presence of such capital has been obscured – the invention of the non-existent is inevitably compatible with a theory of its invisibility! But, as has been seen above, the factors to which Bourdieu points have proved highly visible to Becker in his theories of personal and social capital.

The same is even more so of the new economic sociology in which considerable emphasis is placed upon the social as networks.[34] As Wacquant observes, with copious references (Bourdieu and Wacquant, 1992, p. 118): 'There exist obvious and large zones of overlap and convergence between Bourdieu's older and newer work … and the concerns of the 'New Economic Sociology'.' Quite apart from how acceptable this might be to Becker, the following definition of social capital fits extremely comfortably within the framework offered by Granovetter (1985), discussed below, and his followers (Bourdieu, 1986b, p. 248–9):

> Social capital is the aggregate of the actual or potential resources which are linked to possession of a durable network … The volume of the social capital possessed by a given agent thus depends on the size of the network of connections he can effectively mobilize and on the volume of the capital … possessed by a given agent, or even by the whole set of agents to whom he is connected.

This is not to suggest that Bourdieu's work is reducible to such network theory. His methodology sets him apart in two closely related ways. First, he is conscious of the need to define the meaning of the social in its historically specific context. It is not sufficient to establish the presence of a network but also its content in practice. Such is the basis on which those such as Zelizer (1988) and DiMaggio (1990) have criticized the new economic sociology for its failure to interrogate the cultural content of the objects of study rather than taking this as self-evident by virtue of the interactions that are consolidated and even congealed. It is an accusation that cannot be levelled against Bourdieu.[35]

Second, Bourdieu adopts a particular stance towards empirical work. Whilst he uses statistical techniques to establish connections between the various forms of capital, the various correlations involved are considered meaningless in the absence of an understanding of the meanings of the correlates themselves (Bourdieu, 1986a, p. 18). His methodology involves the use of categories that are investigative in intent and only become systematic with use. Tracing the intellectual genealogy of such concepts is considered to be pointless as each proves to be a 'temporary construct which takes shape for and by empirical work' (Bourdieu and Wacquant, 1992, p. 161).[36] This contrasts with the use of (mathematical) models with well-defined components whose meaning and interactions can be fully explored or tested empirically.

Bourdieu's methodology, then, attempts to strike a balance between economism, by which is meant the treatment of non-economic forms of capital as if they were equivalent to the economic, and retaining a hold on the specificity of non-economic forms of capital without ignoring the 'brutal fact of universal reducibility to economics' (Bourdieu, 1986b, pp. 252–3). In this way, the fluidity of capital, its convertibility, poses a central methodological conundrum (Bourdieu, 1986b, pp. 252–3):[37]

> The real logic of the functioning of capital, the conversions from one type to another, and the law of conservation which governs them cannot be understood unless two opposing but equally partial views are superseded: on the one hand, economism, which, on the grounds that every type of capital is reducible in the last analysis to economic capital, ignores what makes the specific efficacy of the other types of capital, and on the other hand, semiologism … which reduces social exchanges to phenomena of communication.

As McLennan (1998) has sharply clarified, Bourdieu's motivation in positing different types of capital – and the fields they create and the habitus that is brought to them – is to avoid crude determinism in social theory, both in what is caused and how. To have attempted to do so by appeal to different forms of capital is, however, symbolic of failure in two respects. On the one hand, there is the creation of a chaotic concept of capital itself and, on the other hand, a metaphorical slippage into reductionism to the economic (as 'capital').

4. FROM BORDIEU TO COLEMAN – WITH INTERMEDIATE STOPS

For Bourdieu, then, despite seduction by the fluidity of capital,[38] the social remains a necessary starting point and is not reducible to methodological individualism.[39] Taken seriously, his work would be incapable of supporting the colonization of the social sciences by economics. But what Bourdieu says and how he is interpreted and used is another matter. The fluid use of capital is turned to other purposes so that cultural capital, in particular, is simply used as the basis for investigating the empirical relationship between social stratification and cultural activity, no doubt encouraged by Bourdieu's own case studies along these lines. As Lamont and Lareau (1988, p. 161) observe in surveying the US literature: 'In general, American researchers have abstracted the concept of cultural capital from the micro-political framework in which it was originally embedded. From a tool for studying the process of class reproduction, the concept became a tool for examining the process of status attainment.' In short, cultural capital becomes a property of individuals even if it is shared in common by socio-economic groups, and Bourdieu is bowdlerized.

Since the survey of Lamont and Lareau, there has been an explosion of such studies in which statistical study tends to be supplemented by more or less cursory commentary on social theory. Cultural or social capital attached by proxy to individuals is correlated with the incidence of other variables. Hirabayashi (1993), for example, treats migrant networks as a form of social capital. Similarly, Sanders and Nee (1996) perceive social capital of immigrants to the USA in terms of their human capital, family networks and access to finance, whether from their country of origin or newly found credit associations.[40] Swartz (1996) examines the cultural capital attached to religion. But there are a mass of studies. In principle, and at times in practice, it is possible for more sophisticated statistical techniques to be adopted which hold out the impression of being more rooted in social determinants. For example, the presence of a network can be taken as a variable and associated with other individual or network variables.[41] Nonetheless, the inter-network relations are themselves built up and mutually reproduced on the basis of methodological individualism however much this may be concealed or unrecognized.[42]

A major difference in such empirical work, however, is that it no longer needs to draw upon Bourdieu for its inspiration. It can also refer to the theories of social capital that are associated with James Coleman or the new economic sociology, which correspond, respectively, to the weaker (Becker) and stronger versions (asymmetric information) through which economics is colonizing the social sciences.[43] Significantly, for example, Kelly (1994) studies the incidence of Afro-American pregnancy in West Baltimore by reference to the distribution of social and cultural capital, a notion, it is argued, that has been reclaimed from classical sociology by Bourdieu in the 1970s and by Coleman in the 1980s.[44] Labour market analysis offers an excellent avenue for bringing together the different notions of capital in view of sociological and economic traditions, with credentialism and social closure complementing human capital, respectively, as observed by Brown (1995).[45]

Coleman is Professor of Sociology at the University of Chicago and, as such, the counterpart to Becker as economist with whom he has been jointly running a seminar for many years to promote the application of the economic approach to the other social sciences. Coleman's (1987) article appears to mark the first appearance of his use of the term 'social capital'. Given that it has subsequently given rise to his own book, Coleman (1990), running to a thousand pages, it is disarmingly simple. Social capital simply represents the extent to which an appropriate solution has been found to the problem of public goods (which all can consume without cost but none has an incentive to provide unless charging an inefficiently high cost) and externalities (where the actions of individuals have direct repercussions for others). The capacity to deal with these issues reflects a balance between satisfying individual interests and exercising control over them (to prevent free-riding). Once such arrangements are internalized by individuals, they represent norms of behaviour. Coleman (1987, p. 153) appears to consider that putting these elementary insights together constitutes a dramatic discovery, both for economics and for sociology:[46]

> But just as neoclassical economics was slow in recognizing the fundamental differences introduced by externalities and public goods, those who use 'exchange theory' in sociology have been slow in recognizing that many social actions and transactions generate externalities or have the character of public goods or bads. This has meant that exchange theory in sociology has been incorrectly individualistic, failing to recognize that externalities create an interest in exercising control … It is in this sense that social norms constitute social capital.

From such humble beginnings, Coleman's work has appealed to rational choice to explain the whole of social science (Swedberg (ed.), 1990, p. 53).[47] The social system can be built up out of an agglomeration of relations between individuals in which control and interest are fundamental categories, readily deployed in problems involving fallacy of composition, principal–agents, and so on. At times, if only for convenience, it is permissible to take collective agencies as given but not in fundamental theory (Swedberg (ed.), 1990, pp. 51–2):

> One can, I think, take corporate actors as given … for certain kinds of theoretical purposes. At the same time, for other purposes, one has to take them as problematic. In other words, I say that methodological individualism can work at more than one level. True methodological individualism takes natural persons … as the only starting point … (But) the micro-to-macro framework is a relative framework. At whatever level one finds actors acting purposively, one can take that as a micro level and examine the functioning of the system of those actors. But, as I say, for the fundamental explanation, one also wants to take those actors as problematic.

Coleman's contingent concession to the corporate actor provides the point of departure for the less individualistic approaches both to economics and sociology and to the relationship between them. Before addressing this directly, consider how Coleman as a sociologist is distinguished from Becker as an economist despite the unswerving commitment of each to methodological individualism. Apart from the trivial and erroneous differences detailed in an earlier note, the differences are merely ones of starting point from within their respective disciplines. As Frank (1992) observes, Coleman is not committed to reliance upon a representative individual (which is not really required by Becker either but for the obsession with explaining everything on the basis of one given set of underlying preferences). More important, whilst Becker starts from the equilibrium exchange models of neoclassical economics and extends them to situations without monetary exchange,[48] the reverse is the case for Coleman. He is concerned with the variety of social exchanges that take place in the absence of money and which are treated as a variety of barters with social capital serving, by way of analogy, as a form of credit on which individuals can draw so long as the mechanisms exist for them to pay back.

Of course, such differences in starting points should not be emphasized at the expense of overlooking what the two share in common, a commitment to rational choice.[49] The acknowledged difference by other writers from within both economics and sociology is that the optimizing agent is not taken as the starting point. Baron and Hannan (1994, p. 1117) set up the problem as follows: 'First, motivations, preferences and behaviors are molded (and thus must be understood) in social context. Second, individualism, rationality as an approved standard of behavior and the infrastructure supporting markets (eg property rights) are themselves *social and historical products*, not timeless abstractions.' For sociologists such as Granovetter (1985), emphasis is placed on the social and historical, as networks of interpersonal relations become congealed or embedded and, consequently, more important than the antediluvian individualism that might be construed as having created them at some point in the distant past. Thus, more or less as an analytical manifesto, Granovetter (1990, pp. 95–6) asserts: '(1) action is always socially situated and cannot be explained by reference to individual motives alone, and (2) social institutions do not arise automatically in some inevitable form but rather are "socially constructed".' So the social can be taken as historically given as the basis for examining the individual, as in the notion that (Granovetter, 1992, p. 10): 'The general principle may be that the actor whose network reaches into the largest number of relevant institutional realms will have an enormous advantage.' Consequently, Becker is perceived to adopt too simple an approach and 'very narrow' for neglecting the 'particular history in a relationship' which is 'embedded in networks' (Swedberg (ed.), 1990, p. 100).

Exactly the same critical stance to rational choice can be observed from within economics in which George Akerlof is seen as one of the leading protagonists. He sees himself as always doing ‘the opposite of what Becker does’ (Swedberg (ed.), 1990, p. 73). As Elster observes (Swedberg (ed.), 1990, p. 238):[50]

> Becker and Akerlof … represent two different trends. There is the imperialist trend of economics, which I would say just ignores sociological theory in its attacks on sociological problems. And then there is the trend that Akerlof represents, which takes sociological theory seriously and uses it to study economic problems.

In this vein, there is considerable hostility to, even contempt for, Becker, although it tends to be tempered by admiration for his technical virtuosity.[51] For Akerlof, on Becker-type analysis, there is reference to the comment made of Friedman by Samuelson, that he learnt how to spell ‘banana’ but did not know where to stop (Swedberg (ed.), 1990, p. 73);[52] Elster refers to ‘the mindless application of rational choice theory to everything’ (Swedberg (ed.), 1990, p. 238); Sen observes that ‘Becker’s tools have been chosen on the ground of their alleged success in economics, but they are too narrow and do not have much predictive and explanatory power even in economics’ (Swedberg (ed.), 1990, p. 264); Schelling admits ‘I myself don’t find Becker’s work so helpful … he is completely satisfied with the traditional economic model of rational behavior … what annoys me about Becker, and maybe your term, “imperialism”, somewhat catches it, is that he doesn’t think there is anything to learn from outside economics’ (Swedberg (ed.), 1990, pp. 193–4); and for Solow, ‘my nagging feeling is that what he gets … oscillates between the obvious and the false’ (Swedberg (ed.), 1990, p. 276).

5. THE REVOLUTION PORTRAYED

In short, there are three corresponding and interrelated oppositions in the literature: is economics being taken to sociology or vice-versa; is analysis based on the individual or the social; and what is the analytical status of the historically or socially given factors if taken independent of rational choice?[53] These considerations have correctly been understood in the past as posing substantive barriers between the disciplines. The burden of the argument here is that the opposite is now the case as a result of the reaction against the extremes of postmodernism, the colonizing designs of economics whether in the forms offered by Becker or Akerlof, Coleman or Granovetter, and the conflation of concepts induced by the previously discussed fluidity of capital.[54]

In their review article, itself significant for appearing in the *Journal of Economic Literature*, Baron and Hannan (1994, p. 1123) observe that Becker has progressed from use of human capital to capital for any type of activity, emphasizing that such invention is far from new for sociologists, referring explicitly to Bourdieu's notions of linguistic and cultural capital, which are perceived to merge Marxian ideas on class reproduction with economic notions of human capital – Bourdieu is Beckered![55]

Baron and Hannon also explicitly suggest limited progress for economic imperialism as far as sociology is concerned (and vice versa) in view of the evidence of limited mutual citations from the Social Science Citation Index. Perhaps they are correct and, in primarily presenting the logical case for colonization by economics, the argument here is inevitably selective and incapable of assessing the extent of advance and momentum relative to the persistence of continuing traditions and the creation of new ones independent of a colonizing economics.

There are, however, five counter-arguments to such objections. First, as is evidenced by the use of the term 'human capital', it can enter into the vocabulary of social science as a whole without its origins and implications necessarily being acknowledged or accepted. Second, economic colonization is in its early stages – Coleman dates from the late 1980s and Granovetter from the mid-1980s. The basis for the assault is also relatively recent within economics. Interestingly, Becker gave his first paper treating children as a consumer durable in 1960 to laughter from economists as well as sociologists and demographers (Swedberg (ed.), 1990, p. 33). Akerlof's first, now classic, paper, dating from 1966, on the market for 'lemons', dealing with the market structure arising out of informational asymmetries, was rejected by the *American Economic Review* and the *Journal of Political Economy*![56] Third, the fluidity of the conceptualization of capital is permissive of a common language which, together with analytical eclecticism, has created a Trojan horse out of economics as far as the other social sciences are concerned. Fourth, the colonization is advancing with new developments across a broad front and is not confined to sociology even if this has been the focus in the previous discussion.

The fifth and most important argument in support of the idea of a forward march of economics into other social sciences is to observe just how much has happened since the appearance of the review of Baron and Hannan, even within the field of social capital alone. Survey articles, such as those of Harriss and de Renzio (1997) and Woolcock (1998) have already appeared. The latter identifies seven areas of application.[57] The point at the moment is less to examine the notion of social capital critically, as have many contributions, as to highlight the conduit that it provides for the colonization of other social sciences by economics. Significantly and prominently, political science has been added to the lexicon of social capital, most notably through the work of Putnam.[58] In this respect, Putnam is the network counterpart to Becker-type rational choice politics, or the new political economy, as originating with Olson (1965) and taken up by Bates (1981 and 1988).[59] Peter Evans (1996a and b) and his collaborators also correspond within politics to the more sociologically inclined such as Granovetter, with the notion of the developmental state being reinterpreted through social capital, on which see later.

Not surprisingly, the advance of economics is also to be found within geography where it has always sat relatively comfortably, whether in mainstream versions or as the political economy of space. In this respect, what sets geography apart from economics is that it has been profoundly influenced by postmodernism. As Zukin (1996) has observed, this has given rise to two schools of thought on the built environment. The traditional focuses on the political economy of land use, whereas the more recent addresses the symbolic economy, visual representation and inclusion/exclusion in the production of space.[60] In bringing the two schools together, it is hardly surprising that the influence of the fluidity of capital should be felt, with notions of cultural and social capital being deployed freely and flexibly, further encouraged by the resonances between capital as wealth and as city.[61] For Kearns (1993, p. 50), cultural capital is tied up in historic sites and images, Crilley (1993, p. 234) views buildings as functioning as 'symbolic capital', Philo and Kearns (1993, p. 16) consider property-ownership and fancy possessions as the surface badges of cultural capital, and Goodwin (1993, p. 146) argues, in an inversion of the truth, that 'urban capital is in the end valorised like any other form of capital'.

Otherwise, where academics tread, pretentious popularizers are quick to follow. In his article entitled 'Social capital and the global economy', Fukuyama (1995, p. 103) typically paints a future in terms which have long since become fashionable:

> The most important distinctions between nations are no longer institutional but cultural … culture will be the key axis of international differentiation – though not necessarily an axis of conflict. The traditional argument between left and right over the appropriate role of the state, reflected in the debate between the neomercantilists and neoclassical economists, misses the key issue concerning civil society. The left is wrong to think that the state can embody or promote meaningful social solidarity. Libertarian conservatives, for their part, are wrong to think that strong social structures will spontaneously regenerate once the state is subtracted from the equation. The character of civil society and its intermediate associations, rooted as it is in nonrational factors like culture, religion, tradition and other premodern sources, will be key to the success of modern societies in a global economy.

As social theory falls under the spell of economics, the opposite illusion emerges spontaneously as if use of terms such as ‘social capital’ were the denial of the new economics rather than its perfection. But it is hardly surprising that the end of history should seamlessly give way to the triumph of economics. And, just as economics confidently confronts the non-economic from a position of ignorance, so non-economists return the compliment. For Fukuyama (1996, p. 13):

> Over the past generation, economic thought has been dominated by neoclassical or free market economists, associated with names like Milton Friedman, Gary Becker, and George Stigler. The rise of the neoclassical perspective constitutes a vast improvement from earlier decades in this century, when Marxists and Keynesians held sway. We can think of neoclassical economics as being, say, eighty percent correct: it has uncovered important truths about the nature of money and markets because its fundamental model of rational, self-interested human behavior is correct about eighty percent of the time. But there is a missing twenty percent of human behavior about which neoclassical economics can give only a poor account. As Adam Smith well understood, economic life is deeply embedded in social life, and it cannot be understood apart from the customs, morals, and habits of the society in which it occurs. In short, it cannot be divorced from culture.

On a more serious, and even more recent, note, the notion of social capital has been picked up by the World Bank, and it is worth concluding by discussing the reasons for this.[62] For almost two decades, the debate over development has been dominated by the Washington consensus, with the IMF and the World Bank adopting a neo-liberal position on the analytical agenda set in terms of market versus the state. Broadly, if simplifying, the alternative position in the debate, favouring state intervention in policy and in explaining successful economic development, has been attached to the notion of the developmental state. This approach has itself fallen into two separate schools, the economic school identifying why and how the state must intervene, and the political school studying the conditions under which the state can intervene appropriately.[63]

Currently, there is a shift in the position of the World Bank which is rapidly gaining momentum, most remarkably signified by the aggressive interventions being made by Stiglitz, Deputy President and Chief Economist to the World Bank.[64] Stiglitz has long been a representative of the new developments in the microeconomics of market failure. He has proposed a Post-Washington consensus on this basis. At the same time, the World Bank has set up a Satellite Group on social capital within its Task Force on Social Development (Harriss and de Renzio, 1997, p. 930).

What is the connection between these developments?[65] First, as critical assessments of social capital have observed, it can be anything and, consequently, provides a framework for the re-running of old debates – whether at the macro-level in terms of the meanings and role of civil society or at any number of micro-levels.[66] Second, even so, the decanting of old wine into new bottles reflects ideological and analytical shifts. On the one hand, there is a more progressive content relative to the old consensus. It is accepted that state intervention is justified in case of microeconomic, market failures for which corrective action can be shown to be beneficial. On the other hand, in contrast to notions of modernization, Keynesianism and welfarism, whatever their respective merits, the analytical framework is one of focusing upon micro- rather than macro-relations which, consequently, remain unexamined. It is, for example, astonishing how little notions of social capital have even addressed the issue of globalization despite the extent to which it has emerged to prominence in economic and social theory. Much the same is true of the role of power, especially as social capital holds out the promise of something for nothing and the placing of conflicts of interest into the background.

Third, more specifically at the level of policy, the old consensus has been caught in an ideological dilemma. In arguing against state intervention (even if as an ideological cover for what has been the promotion of discretionary intervention in the form of austerity and liberalization), it becomes impossible to argue positively about what the state should do. Consequently, as has become apparent in latest issues of the World Bank's World Development Report, a new state-friendly stance allows for even greater influence over the economic and non-economic policies to be adopted by developing countries.

Fourth, the emergence of social capital has had the effect of allowing the World Bank to sidestep completely the weight of criticism that has been built up against it during the era of the Washington consensus. Irrespective of its conceptual merits, the developmental state in one form or another has been a major rallying call for those who have opposed the simplistic nostrums of the old consensus. The corresponding literature was totally ignored by the World Bank. Now, by embracing the notion of social capital, it can continue to proceed as if that literature never existed.

Fifth, even worse, the notion of social capital has the capacity to incorporate and re-interpret the developmental state literature in its own image, reducing its radical and macro content. Further, it will induce many within the critical tradition to work within such a framework, with the Post-Washington consensus dominating the agenda on development as did the old consensus. In short, social capital, the move to a Post-Washington consensus, and the colonizing of other social sciences by economics are all closely related. It is imperative, as social theory (re)incorporates the economic in retreating from the excesses of postmodernism, that it does so on the basis of an appropriate political economy rather than succumbing to the far from seductive charms of the dismal science. The first section, pointing to fluidity, structures, relations and tendencies, highlighted the analytical elements through which this can be done on the basis of the realities of capital itself, rather than appealing to the invented and chaotic notion of social capital.

NOTES

* Thanks to Costas Lapavitsas and others for comments on earlier drafts.

1. For a critical assessment of mainstream economics, appropriate to the themes developed here, see Fine (1995b and 1997b).
2. See Fine (1997a, 1998b and 1999a).
3. See especially Becker (1996) and a remarkable collection of essays by his followers, Tommasi and Ierulli (eds) (1995).
4. See Agbodza and Fine (1996) for an account of the ways in which the deeply problematic nature of human capital as a concept has primarily been set aside as it has become popularized.
5. See Harriss and de Renzio (1997) and Woolcock (1998).
6. On the other hand, Harris and de Renzio (1997) do not reject the concept but seek to ensure that it incorporates a more radical content.
7. See also Slater (1997, p. 158) who perceives Baudrillard as having reduced consumption to a matter of signs alone: 'Barthes and Baudrillard … merely adopt Veblen's general idea that the only real function of goods is to signify status. They then generalize this to all classes and translate it into semiotic terms. Baudrillard takes this furthest, to the point of arguing that we no longer consume things but only signs.'
8. See Fine (1975, 1980 and 1989) and also Arthur (1998).
9. There is equally, in his work and that of his followers, a notable absence of consideration of unemployment and power. On the latter (see below), note that for Coleman, it is simply the weight of interpersonal allocation to different person's interests (Swedberg (ed.), 1990, p. 56): 'And that constitutes power, which in my system – if it were applied to economics – power and wealth are equivalent. But when you deal not just with economic resources but also with other resources (including things involving collective actions), then it can be better interpreted as "power" rather than as wealth. So that is a very fundamental difference that I have with the neoclassical economists.'
10. See Campbell (1998).
11. Although this point is not developed here, it is worth observing the affinities between social capital and Marx's notion of the potential indirectly productive impact of unproductive labour (to which can be added non-wage labour). Note, however, that Marx's account is attached to a systematic understanding of the differences between the different types of labour in their relation to capital.
12. It should be emphasized that the fluidity of capital into new areas of activity is a complex and contradictory process as opposed to a simple case of shifting but frictional comparative advantage. The productivity increases associated with capitalism which tend to undermine alternative forms of production also have the effect of supporting them through making other sources of income and cheaper inputs available. See Fine (1992) and Fine et al. (1996) for discussion in the context of domestic labour and food, respectively.
13. For a discussion at greater length of the issues that follow, see Fine (1998c) where they are addressed in terms of their relationship to value theory and to more concrete study, both theoretically and empirically.
14. Although such structures can straddle the economic and non-economic, as in notions of patriarchy for example. See Fine (1992).
15. As will be seen, in this light, Berman's (1982) discussion of modernity in terms of Marx's Communist Manifesto dictum, 'All that is solid melts into air', needs to be modified for the transition from postmodernism – 'all that is air solidifies as capital'. It is tempting to

associate postmodernism with shifting economic conditions as in Stanley (1996, p. 1) quoting from Harvey (1989): ‘While simultaneity in the shifting dimensions of time and space is no proof of necessary or causal connection, strong *a priori* grounds can be adduced for the proposition that there is a sole kind of necessary relation between the rise of postmodernist cultural forms, the emergence of more flexible modes of capital accumulation, and a new round of “time-space compression” in the organisation of capitalism.’ Care must also be taken in deducing intellectual from material developments.

16. See a number of the articles collected in Jameson (1998) for the notion that the commercialization of the image, and so on, in late capitalism gives rise to the ideal abstractions attached to postmodernism. Note also that, whilst Jameson is acknowledged to be a leading theorist of postmodernism and one who particularly engages with the economy, his analysis of the latter is primarily both superficial and disengaged.
17. For this argument in greater detail, see Fine and Leopold (1993, Chapter 4).
18. Symbolically, the technical apparatus of isoquants and production is identical to that of indifference curves and consumption.
19. For critical expositions of post-Fordism, see Mavroudeas (1990), Brenner and Glick (1991), and Fine (1995a, 1998a), for example. For an account of post-Fordist consumption which unwittingly reveals how limited it is, see Smith (1998).
20. See Bourdieu and Haacke (1995, p. 39) for an appropriate ridiculing: ‘You probably remember how, in January of 1991, the prophet of the simulacrum announced in *Libration*: “There will be no Gulf War”. A few months later, the great dissimulator offered us a collection of his analyses under the title The Gulf War Did Not Take Place. Such an escape from reality looks … more and more like a mental disorder. But there is also an occasional sign which demonstrates that Baudrillard has, in fact, not left the world of real exchanges. When Der Spiegel asked him whether he would accept an invitation to visit the battlefield in Iraq, he answered: “I make my living with the virtual”.’ See also Porter (1993) who associates Baudrillard with hysteria in the context of history and consumption.
21. See Bourdieu (1986b, p. 243) where economic capital is what is ‘immediately and directly convertible into money’, quoted in Calhoun (1993, p. 70).
22. See also Bourdieu (1994, pp. 111 and 127; and 1996b, p. 265) and Bourdieu and Wacquant (1992, p. 97).
23. See Lamont and Lareau (1988, p. 159).
24. As in the symbolic capital of the bachelor on a dance floor and his capacity to dress, dance and present himself, Bourdieu and Wacquant (1992, p. 165).
25. Compare with Becker’s reference to the problem of the source of hegemonic language (Swedberg (ed.), 1990, p. 41): ‘The speaker last night at the rational choice seminar spoke on why one specific language gets chosen as the official language in a multilingual situation. He said that he wasn’t a rational choice person until he concluded that he could best explain the behavior he was investigating with the rationality assumption. And that is OK to me.’
26. See also Robbins (1991, p. 154): ‘Bourdieu argues that the notion of “cultural capital” which he had used at that time (1964) has been necessary to differentiate his position from those of both the educational psychologists and the “human capital” economists. Although he does not explicitly say so (in 1979), however, it is clear that “cultural capital” was not wholly satisfactory because it was individualistic.’ It is far from clear that such individualistic content has been both recognized and rectified in subsequent work.
27. See also Bourdieu (1981, p. 308) where the positions of the Sun King’s courtiers are interpreted as ‘their power over the objectified degrees of the specific capital – which the king controls and manipulates within the room for manoeuvre the game allows him’.
28. See also Wacquant (1996). From a Marxist perspective, this is a remarkable inversion in that the categories of capitalism are explained by those attached to a lower form of development. A striking illustration of the use of such theory in advance of the object of theory is in the case study provided by Kolankiewicz (1996). He deploys the notion of social capital (education, connections, and so on) to anticipate who will become capitalists in the Polish transition to capitalism. It is ‘interpreted as various networks brought into play by the absence of conventional capital’ (p. 429).

29. See also Calhoun (1993, p. 65) and Postone et al. (1993, p. 5): 'Economic capital can be more easily and efficiently converted into symbolic (that is, social and cultural) capital than vice-versa, although symbolic capital can ultimately be transformed into economic capital.'
30. Ryan (1992, p. 50) puts the issue well: 'The problem for capital is that commoditisation of cultural objects erodes those qualities and properties which constitute them as cultural objects, as use values in the first place.' See also Slater's (1997, p. 71) reference to Gresham's law of cultural taste, a parallel with money suggested by F.R. Leavis, in which the good is driven out of circulation by the bad. This paradox can, however, be exaggerated as is revealed by Haug's notion of the aesthetic illusion being turned to commercial gain. See Fine and Leopold (1993, Chapter 2) for a discussion.
31. See Wu (1998) for the notion that corporate spending on the arts is a way of accumulating cultural capital.
32. Thus, as Lamont and Lareau (1988, p. 156) lament: 'In Bourdieu's global theoretical framework, cultural capital is alternatively an informal academic standard, a class attribute, a basis for social selection, and a resource for power which is salient as an indicator/basis of class position.' See also Calhoun (1993, p. 65).
33. Most notably in Bourdieu (1986b, pp. 244–5) for cultural capital. See also Bourdieu (1994, p. 127), and Bourdieu (1986a, p. 177) for the hidden capital that generates distinct tastes for food.
34. For overviews of the new economic sociology, see collections edited by Swedberg (1993).
35. Note, however, that DiMaggio (1991) provides evidence for the interpretation offered here of a transition away from the extremes of postmodernism in which concepts of capital play a leading role. In the context of cultural production but of more general applicability (p. 153): 'The received terminology of lay and academic cultural criticism – phrases such as mass society, highbrow/lowbrow, postmodernism – will not get us very far in addressing such issues. Terms that have entered the sociological vocabulary during the past two decades – cultural capital, cultural industry systems, and others developed by Pierre Bourdieu … will provide more leverage. What such recent progress promises is an analytic sociology of culture, distinct from criticism and textual interpretation, sensitive to the structural and pragmatic aspects of the symbolic economy, rigorously empirical in method and temperament, and thus capable of a comprehension of contemporary cultural change.'
36. It is noted that this leads to a chicken and egg problem as far as the definition of the field of a particular type of capital is concerned and its distribution (Bourdieu and Wacquant, 1992, p. 108). It should also be observed that Bourdieu's categories of capital have proved far from temporary in his and other hands and that it is essential that their genealogy be uncovered irrespective of how temporary they are for him.
37. Note the Althusserian overtones and also that Bourdieu frequently does degenerate into economic reductionism, in part because this is immanent in the notion of convertibility between the various types of capital, so that one is equivalent to another (whether in changing form, as in the profit of non-economic capital, or in the balance of conflict where one form is set against another).
38. In many ways, much of the content of Bourdieu's approach is captured in the following (Bourdieu, 1996b, p. 318): 'Symbolic capital consisting of recognition, confidence, and, in a word, legitimacy has its own laws of accumulation that are distinct from those of economic capital … (Such) durable capital tends to be … misrecognised, recognised legitimate capital … through conversion into better concealed forms of capital, such as works of art or education.'
39. This methodological commitment is made more secure by Bourdieu's preoccupation with cultural studies. The symbolic is perceived as the most complex form of capital and 'his whole work may be read as a hunt for its varied forms and effects' (Bourdieu and Wacquant, 1992, p. 119).
40. They seek to explain relative success in self-employment. To address capital proper, they would need to examine access to exploitative labour markets, presumably equally dependent on ethnic networks and family membership!

41. See Anheier and Gerhards (1995), for example, who use blockmodelling to examine the social and cultural capital of German writers to determine their membership or not of the elite.
42. In principle, of course, a network of relationships could be studied between network relations and so on with fleas on fleas. Ultimately, this rests on a cascade of structured binary interactions between individuals.
43. For accounts of the new economic sociology, see the collections edited by Swedberg.
44. Note that the two authors come together in the 1990s in Bourdieu and Coleman (eds) (1991). In his epilogue, Bourdieu (1991, p. 373) considers the enterprise to have been a success in otherwise potentially breaching a dialogue of the mutually deaf. Despite his claims to the contrary, as argued here, the only potential for a constructive outcome is essentially in the form of an eclectic notion of 'capital' in which the economic approach surreptitiously becomes more influential.
45. See also Sanders and Nee (1996) who refer to the work of Coleman (1988 and 1990), Granovetter (1985) and Bourdieu (1993) in addressing social capital.
46. It is commonplace for respective ignorance of one another's disciplines to be cited as an obstacle for integration of economics and sociology. This needs to be established in terms of the dynamics of both disciplines and the incentives to overcome such ignorance. A more secure consequence of the latter appears to be the dramatic discovery of the elementary as far as the other discipline is concerned. For another example of Coleman's profound ignorance of neoclassical economics, see the bizarre statement of his fundamental difference with it on the grounds that it should use a Cobb–Douglas utility function rather than one of general functional form (Swedberg (ed.), 1990, p. 57). He also inappropriately berates it for being incapable of making interpersonal comparisons. Note that Coleman's (1991) history is equally inventive with, by his account, no apparent constructed social organizations prior to the thirteenth century (p. 4), and a shift 'in the past century from subsistence economies of households' (p. 11). On a different tack, in a review of his book, Frank (1992, p. 148) rebukes Coleman mildly for lack of originality and/or scholarship in failing to refer to Schelling's (1978) work, with Coleman's volume 'if not a clone of Schelling's, then at least its fraternal twin'. In his book, Coleman (1990) ultimately credits Loury (1977 and 1987) with introducing the concept of social capital.
47. The possible exception is psychology since it is concerned with 'the action of a natural person' (Swedberg (ed.), 1990, p. 53). Even so, Coleman seems to think that it is possible that 'the same structure exists internal to the individual, and the values of particular resources or events for the system are his interests, since he is the system'. Elsewhere, Coleman (1991) sees constructed social organization by way of physical analogy, as in nuclear fission and genetic engineering.
48. Although, as observed above, his exchange economy has no money.
49. As Becker observes (Swedberg (ed.), 1990, p. 50): 'I think the differences between the various schools (of economics and sociology) are much smaller than the similarities. Basically, what the rational choice people do is to start with some unit of behavior or actor that they assume is behaving rationally.'
50. See also Swedberg (ed.) (1990, p. 194) where Schelling suggests in contrast to Becker that: 'George Akerlof is more creative. He has a great curiosity … (he) is almost the opposite of economic imperialism. He looks into sociology for concepts that he can import into economics.'
51. In Bourdieu's terms, Becker clearly has accumulated considerable cultural and symbolic capital in inverse proportion to his critical faculties and powers of independent thought.
52. Taramasalata is even better. My own preferred parable is the child whose first toy is a hammer and who presumes that everything in the world is a nail.
53. Note that Bourdieu (1991) essentially views such oppositions as obstacles to analytical progress.
54. Note that Lindenberg (1990) suggests that sociological models of behaviour had become exhausted by the 1960s and paved the way for a renewal of interest in economic models albeit in unclean forms.

55. See Calhoun (1993, p. 84) who observes: 'Despite his disclaimers Bourdieu does indeed share a great deal with Gary Becker and other rational choice theorists.'
56. More generally, see Akerlof (1984). Becker claims to have applied the economic approach to politics in a paper rejected by the Journal of Political Economy in the early 1950s. Although such a paper was published in 1958, 'nobody paid it much attention … I was applying economics to politics as early as anyone. But the rejection hurt' (Swedberg (ed.), 1990, p. 33).
57. And, in what must be one of the longest ever footnotes, provides a bibliography.
58. See Putnam (1993a, 1993b and 1995), for example. The work of Putnam is also correctly seen as the counterpart to that of Coleman in terms of the relative emphasis of the role of the state in crowding in or crowding out social capital in the form of networks, so that this debate is itself raised to a higher political level in terms of social capital. Putnam explicitly derives his use of the latter from Coleman (1990, p. 167), although, in his final chapter, where he addresses social capital after completing his case study, he draws freely upon any author or notion from the literature. Ultimately, this leads to the conclusion (p. 177): 'Stocks of social capital, such as trust, norms, and networks, tend to be self-reinforcing and cumulative. Virtuous circles result in social equilibria with high levels of cooperation, trust, reciprocity civic engagement, and collective well-being … Defection, distrust, shirking, exploitation, isolation, disorder, and stagnation intensify one another in a suffocating miasma of vicious circles. This argument suggests that there may be at least two broad equilibria toward which all societies that face problems of collective action (that is all societies) tend to evolve and which, once attained, tend to be self-reinforcing.'
59. Note that Olson was trained and is a professor in economics (Swedberg (ed.), 1990, p. 177): 'I like to get down, whenever possible, to the primitive entity of economic and social life: *the individual*.'
60. If not through notions of post-Fordism. Thrift and Glennie (1993) correctly criticize the use of the universal categories 'modern' Fordist production and 'postmodern' flexible production as logical and chronological categories for their undermining of the ability to assess continuity and change in consumption. This can be perceived as confirming the weakness of post-Fordism as a postmodern category, placing it as part of geography as a discipline firmly within the camp of the political economy of land use.
61. Kearns and Philo (1993, p. ix) point to, 'cultural capital where "capital" refers both to money and to "capital" or sizeable cities'.
62. Fine (1999b) provides a more detailed account.
63. See Fine and Stoneman (1996) and Fine and Rustomjee (1997).
64. See especially, Stiglitz (1998).
65. Some of the points that follow are very neatly caught in Hildyard (1998).
66. See Harriss and de Renzio (1997) and Woolcock (1998).

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5. Economics imperialism as Kuhnian revolution?*

Ben Fine

1. INTRODUCTION

It is now 40 years since Thomas Kuhn laid out his theory of scientific revolution. Kuhn was initially concerned with explaining how science changed, drawing a distinction between normal, smoothly evolving science within a given paradigm and revolutionary science that blazes a shorter, if not short, sharp shift between paradigms. As a result, Kuhn's language, especially the notion of a paradigm for example, has become commonplace even as substantive understanding of his contribution, and criticism of it, have declined. Further, in the scholarly literature, more than enough time has passed for his approach to have been fully traversed, if not forgotten, territory in understanding the sources and nature of intellectual change. For those economists who participated, even if merely as an audience, in the Kuhnian revolution, it ought in retrospect to stand out as a remarkably rare period of self-examination of a discipline that is notoriously unaware of, and uninterested in, its own history and methodological underpinnings.[1] Whilst primarily concerned with the history of science, Kuhnian notions were readily transposed to the social sciences without economics standing on the sidelines as an exception, as has been so for other intellectual fashions such as postmodernism in the more recent period.[2]

This is not to suggest that the Kuhnian project was readily assimilated without modification within the dismal science. But it did receive a surprisingly broad welcome across the discipline, from both orthodoxy and heterodoxy. The mainstream, for example, could claim that it practised such a successful and appropriate brand of normal science that it need fear no subsequent revolution, the Keynesian having complemented the marginalist revolution (and the monetarist counter-revolution only on the horizon). Thus, for Gordon (1965, pp. 123–6):[3]

> [Adam] Smith's postulate of the maximizing individual in a relatively free market and the successful application of this postulate to a wide variety of specific

> questions is our basic paradigm. It created a 'coherent scientific tradition' (most notably including Marx) and its persistence can be seen by skimming the most current periodicals … I conclude that economic theory is much like a normal science and that, like a normal science, it finds no necessity for including its history as a part of professional training.

Whilst the mainstream used the Kuhnian concepts of normal science to puff out its chest with pride and confidence, radical political economy found much within the Kuhnian framework with which to assault the mainstream as both abnormal and non-scientific by its own, let alone other, standards. It saw the prospect of itself prospering by way of constituting an alternative paradigm, Ward (1972) for example.

Such dreams have now been lost rather than fulfilled with the decline of radical political economy and other heterodoxies, and the 'Americanization' of economics.[4] Indeed, as argued elsewhere, not only has the mainstream orthodoxy strengthened its stranglehold on the discipline but there is also currently a revolution going on in or, more exactly, around economics. In brief, it is colonizing the social sciences as never before, giving rise to what its own practitioners have dubbed economic or economics imperialism.[5] On the basis of the new information-theoretic economics, the new micro-foundations purports to examine both the imperfections of the market as well as the non-market response to them, in the form of institutions, customs, collective action, and so on. The latter feature is what enables economics to encroach upon previously uncharted or, at least, hostile territory traditionally occupied and dominated by the other social sciences. Such developments are reflected in the proliferation of 'new' fields of economics – the new institutional economics, the new household economics, the economic sociology, the new political economy, the new growth theory, the new labour economics, the new economic geography, the new financial economics, the new development economics, and so on.

The use of the term 'revolution' to describe the current phase of economics imperialism arises out of its reversing, at least in one respect, the marginalist revolution of the 1870s.[6] Irrespective of other differences, economics was established as a separate academic discipline from the other social sciences, and the economy as market as a separate object of study. Now, the new information-theoretic economics purports once again to examine both economic and non-economic phenomena in tandem, with both understood as 'rational' responses to informational imperfections. In one respect at least, the marginalist revolution has been reversed, in reuniting the market with the non-market. But the purpose of this chapter is not, as the reader might be beginning to anticipate, to consider economics imperialism as a more or less exemplary study of a Kuhnian revolution within economics or across the social sciences more generally. Rather the conclusion drawn here is that it is *not* appropriate to understand the current phase of economics imperialism in terms of whether it represents a Kuhnian revolution or not. This is in part because of the difficulties associated with the term itself and with the broader framework to which it is attached.

Nonetheless, the debate around the Kuhnian approach is useful in shedding light on economics imperialism. In particular, it reveals that economics imperialism is based upon an extreme form of economic reductionism of the economic *and* social to the incidence of, and response to, market, especially informational imperfections. To a large extent, such reductionism is tempered and concealed by the informal way in which the economic is being transposed to the non-economic. In addition, the other social sciences are open to influence in seeking to retreat from the worst excesses of postmodernism and an undue preoccupation with subjectivity, meaning and identity as opposed to the material factors that make these possible.

Whilst the transition to the new information-theoretic economics has been remarkably smooth, its designs upon the other social sciences have proven more problematic because of their different traditions and methods. As a result, there is one respect in which the notion of revolution is apt – that outcomes remain extremely open and uncertain. In particular, whilst the scope of economic debate is liable to remain circumscribed, other social sciences have the option, the incentive and the provocation to develop a range of alternatives. More specifically, as will be seen in section 2, the debate around Kuhn was drawn to the conclusion that his approach was fundamentally flawed, and that his key concepts do not stand up well either to close analytical or empirical scrutiny. In short, it is not appropriate in general to examine and understand intellectual change in broad Kuhnian terms. However, this does not mean that the Kuhnian approach, and the debate it inspired, should be discarded – much like the mainstream's disregard for the history of economic thought. For both the critical and warm reception that Kuhn received is itself explained by the important insights that he offered or prompted, even though his overall framework has, ultimately, been rejected. Methodology has moved on since Kuhn, not least through the influence of postmodernism and notions of social construction, de-construction and re-construction. It is, then, inappropriate to address economics imperialism as a Kuhnian revolution but it is fruitful to consider it against the debate that his notion has inspired. This is done through the following four sections. Section 2 provides a brief overview both of the Kuhnian stance on scientific progress and some of the features of the current phase of economics imperialism. Section 3 bounces off the Kuhnian notion of paradigm and normal science in order to investigate what is distinctive about economics imperialism. Section 4 turns to the issue of revolutionary science and how there are shifts between schools of thought. Section 5 asks why schools change and provides some illustrative examples of the differential impact of economics imperialism. The concluding remarks look to the future in terms of the prospects and challenges both for economics as a discipline, and for alternative sources of economic analysis from across the social sciences.

2. PRELIMINARIES

It is worth beginning with a brief account of the two elements, Kuhnian scientific revolution and economics imperialism, that are being set off against one another. For the former, a useful summary is provided by Suppe (1977) on which I draw freely.[7] Central to Kuhn is the notion of paradigm, with science proceeding through discontinuous breaks between them rather than through a continuous evolution, as is suggested by Toulmin (1972) in critique of Kuhn. A paradigm is multi-faceted, ranging from exemplars (or standard applications) to disciplinary matrix (or world view), 'but according to Kuhn the scientist obtains his disciplinary matrix from the study of exemplars, and they in large part determine that matrix' (p. 139). For Kuhn, the matrix is not acquired 'through the study of explicitly formulated methodological rules … and a theory always is advanced in conjunction with various exemplars which are presented as archetypal applications of the theory to phenomena' (p. 140). Further, generalizations are not explicitly and formally specified but proceed through implicitly acquired skill in interpretation. So, there is a need for apprentices both to learn exemplars and the skill to extend them. 'It follows that two scientific communities whose symbolic generalizations are the same or employ some of the same theoretical terms, but possess significantly different exemplars, will attach different meanings to the theoretical terms and thereby interpret their generalizations differently' (p. 141). Suppe cites Kuhn to the effect that, exemplars 'are achievements sufficiently unprecedented to attract an enduring group of adherents away from competing modes of scientific activity [which are] … sufficiently open-ended to leave all sorts of problems for the redefined group of practitioners to resolve' (p. 143). This all occurs in response to mounting theoretical or empirical anomalies produced, often unintentionally, within previous paradigms. The weight of anomalies leads to cumulative switch to other exemplars and, ultimately, to logical incompatibility between disciplinary matrices, differences in prediction, differences in vocabulary, and to 'an argument over competing world views and competing ways of doing science'. With a division into competing camps, without common assumptions, persuasion rather than logic becomes decisive in commitment to one or another paradigm. The new matrix has 'changed meanings attached to theoretical terms' possibly with the old as approximation (p. 147).

So much for Kuhn for the time being; now for economics imperialism. It is far from new since there have been longstanding attempts to treat all social phenomena *as if* they were reducible to the economic, with Gary Becker especially in the forefront.[8] This has depended on what I have called the non-revolutionary route – of treating non-market phenomena as if they were governed by a market and, thereby, imposing economic rationality upon them in the form of atomized and optimizing individuals. When Lionel Robbins (in)famously defined economics as the allocation of scarce resources between competing ends, for most economists the implicit assumption was that the market would be doing the allocating. Indeed, such a stance was imperative in establishing economics as a distinct discipline – both as the science of the (market) economy and as a method based on optimizing individuals.[9] On the other hand, in principle, the analytical principles of neoclassical economics are universal; they know no bounds in terms of time, place and activity. Only convention and, it must be suspected, a certain cautious deference to reality has traditionally confined economics as a discipline to the economy as market. In this light, as little as a decade ago, Becker has been regarded as something of a renegade by his more intellectually rounded, albeit equally committed, neoclassical colleagues (Swedberg (ed.), 1990). Akerlof (1990, p. 73) even lampoons Becker in terms of Samuelson's image of Friedman as having learnt to spell banana but not knowing when to stop!

Thus, mainstream neoclassical economics has proceeded on the basis of a science of the economy in which the latter fills out a definite terrain which, negatively, defines the non-economic. Initially, the economic is synonymous with market relations. On this basis, more or less complex models of equilibrium are constructed, ranging from supply and demand in a single market, to general equilibrium which incorporates all markets including those spreading out into the indefinite future. Such models have two important analytical properties. First, they provide a standard against which the 'real world' can be judged. As Carrier (1997a, p. 16) argues, such models are surrounded by a *cordon sanitaire*, since any empirical and theoretical anomalies can be rationalized in terms of market imperfections, or the non-correspondence of the economy to the economic model. Second, in practice if not in principle, the analytical content of mainstream economics is not specific to market relations. The well-worn technical devices – organized around optimization, production and utility functions, and inputs and outputs – are ahistorical and asocial. Consequently, it is only by convention and caution that the domain of economics is restricted to the market, where prices prevail.

No such trepidation is to be found amongst the economic imperialists in the Becker-mould. For them, the economic approach most strongly associated with Becker is universal, applicable across all activity. Consequently, as Carrier (1997b, pp. 152–3) reveals by referencing the critical commentary of others, Becker essentially obliterates the distinction between the economic and the non-economic except as the consequence of (economic) choices made by optimizing agents. Indeed, as much of non-economic life as possible is explained by the economic approach. Whatever falls outside is deemed to be non-economic by virtue of being irrational.

In terms of colonizing other social sciences, Becker's 'as if' approach has the distinct disadvantage of denying the social other than as aggregation over individuals or as externally given and unexplained. Nor are market imperfections new to 'traditional' neoclassical economics (with implication of a rationale for state or other intervention) since they have long been recognized, especially but not exclusively within partial equilibrium, alongside transactions cost, say, as an influence on the organization of firms and other institutions. What is more fundamentally innovative within the new microeconomics of informational asymmetry (the new approach as I will call it as opposed to the old) is its ability to examine social structure, institutions and customs, albeit on the continuing basis of the peculiar form taken by methodological individualism. Utility maximization is the ultimate rationale for both economic (and market) and non-economic (and non-market) behaviour, with equilibrium reproduction or evolution of the social on the basis of aggregate individual behaviour. Relative to the old, the new approach adds market imperfections in the form of informational asymmetries but, on this basis alone, it also extends the scope of the analysis more or less indefinitely across the social sciences.

It does so, without going into details, through the use of informational imperfections to explain why markets might be inefficient, might not clear (supply and demand remain out of equilibrium), or might not emerge at all.[10] As a result, whilst still drawing upon a methodology of optimizing individuals, it is able to suggest why economic *structures* might arise – as, for example, in the division between the employed and unemployed when the labour market does not clear. Whilst a significant result *within* mainstream economics, even more important are the implications for other social sciences. For non-economic or non-market behaviour is now understood as the rational, that is individual optimizing behaviour, response to market imperfections. It is appropriate in the face of informational, and hence market, imperfections to form social structures, as reflected in collectives, institutions and the state, and to engage in what would otherwise appear to be non-rational behaviour, as in customs, trust and norms.

Such simple analytical advances considerably expand the capacity of economics to colonize the other social sciences, not least because of the formal and abstract nature of the models employed within economics – they apply in principle to any imperfect (non-)market situation. Accordingly, the principles involved have no historical or social roots other than in the language deployed. For, in content, they rely entirely upon categories such as utility, production, inputs and informational uncertainties, quite apart from the timeless and rootless optimizing of individuals, themselves located in history and society only by virtue of the preceding optimizing of their ancestors. Thus the new, like the old, approach is characterized in its starting point by excising social and historical content in anything other than name. Consequently, such content can be (re)introduced formally as path dependence in some form but informally on the basis of the continuing traditions and concerns of the colonized disciplines and topics. The social is the non-market response to market imperfections. Further, such incursions tend to be informal, adopting the language rather than the models of economics, as in reference to human capital in any number of applications and rent-seeking and collective action when discussing institutions. Of course, it is also possible for formal economic models to be directly applied theoretically and empirically to other disciplines or non-economic topics without such informalities.

In the latter case, economics tends merely to draw upon other disciplines for definition of an issue and on which to exercise its models. As such, the colonization of the other social sciences by economics is particularly open to being parasitic, arrogant, ignorant and contemptuous. These are harsh words, rarely if ever raised in the context of normal science, although possibly wielded as revolutionary science seeks to replace an old by a new paradigm. Why are they justifiably attached to economics imperialism? The parasitism of colonization arises out of the lack of social and historical content that characterizes the underlying theory. Its origins within economics means that it has been applied first to market imperfections in isolation in order to explain why markets may be inefficient, fail to clear, or be absent altogether. It is then extended to non-market forms and to any other problem in the social sciences – with the exception of anything involving the social construction of meaning for which it is powerless. But, by its nature, the theory does not construct problems; it only offers solutions to problems that already exist, together with the corresponding concepts with which they have been posed. Within economics, the problems are why it is that markets might not work perfectly and why the market is not the only form of social organization. These are well-established problems within economics, especially outside the mainstream, with a correspondingly wide range of answers, varying from different versions of Keynesianism to different schools of political economy that share in common a rejection of methodological individualism. Otherwise, in the other social sciences, any number of theoretical issues and concepts can be appropriated and reinterpreted within the new information-theoretic approach. Of course, all analytical advances are liable to confront, draw upon, and even revolutionize traditional scholarship. As a result of its reductionism, however, the new approach can only do this in the form of reinterpretation on the basis of its own understanding of informational imperfections.

In much colonization by economics of the other social sciences, such parasitism is also associated with arrogance in two respects. For, having exploited the other social sciences for their problems and concepts, the results of previous scholarship are reproduced as if innovative by virtue of having been based upon informational imperfections. At times, this borders on the farcical with naive economists claiming to have shown, for example, that institutions matter and that labour markets differ from other markets as if this were not already well-known from a variety of other perspectives.[11] In addition, though, as the second form of arrogance, it is precisely the failure of previous analyses to have proceeded from informational imperfections which leads them to be perceived, from the perspective of economics imperialism, as both deficient and lacking in theoretical rigour. For these, in the hands of economic theorists, always mean mathematical modelling irrespective of conceptual coherence and validity. And where theory ends, statistical methods in the form of econometrics are taken as the only benchmark by which to assess theory, as if falsifiability as a criterion of science had never been questioned.

With respect to ignorance, the colonization of social sciences by economics has been marked by total disregard for the scholarship of the appropriated disciplines and that attached to the object of analysis other than for the parasitical purposes outlined previously. It is simply a matter of investigating sources of, and applications for, models of informational imperfections. At best, earlier contributions are filtered for this purpose. Finally, in colonizing the other social sciences, economics reveals its contempt for them by the sum of the previously outlined features, with the sum greater than the individual parts. For anything that does not conform to its approach is dismissed as lacking 'rigour' and 'science', terms that are well known within economics as a superficial code for policing anything that does not ultimately rest on a mathematical model and/or statistical testing.[12]

Ironically, as discussed below, economics as a discipline has engaged in its own version of Kuhnian normal science whilst becoming decreasingly detached from a sense of its own methodology and discussion of methodology, whether of economics or more generally. Its own claims to be scientific depend upon an antediluvian view of science, certainly one that is both pre-Kuhnian, and widely discredited on all sides.[13] As Kuhn (1970a, p. 235) argued some thirty years ago:

> Philosophers of science will need to follow other contemporary philosophers in examining, to a previously unprecedented depth, the manner in which language fits the world, asking how terms attach to nature, how those attachments are learned, and how they are transmitted from one generation to another by the members of a language community.

Mainstream economists do not appear to have heeded his advice. They remain as unconscious as ever of the ideological content of the concepts and methods they use. These are taken to be self-evident, unproblematic and universally applicable. As Amariglio and Ruccio (1999, p. 23) put it: ‘Academic economists tend to privilege the form of reasoning associated with economic science – the “economic way of thinking” … the formal methods that serve to guarantee scientific rigor.’

3. PARADIGM GAINED?

As observed, if there is the use of one concept that particularly marked the arrival of Kuhn’s influence, it is that of paradigm. It has entered the scholarly lexicon and is used freely as an analytical rationale, often without reference to and, possibly, knowledge of its dependence on Kuhn. You have your paradigm and I have mine. It’s just a matter of taste.[14] Thus, as on the canvas of Marxism which, at about the same time, began to attach itself to the Althusserian notion of problematic, it became commonplace for all and sundry across the academic world to locate themselves as working within one or other paradigm, or as engaging in their own versions of normal science. As Masterman (1970, p. 60) puts it:

> That there is normal science – and that it is exactly as Kuhn says it is – is the outstanding, the crashingly obvious fact which confronts and hits any philosophers of science who set out, in a practical or technological manner, to do any actual scientific research. It is because Kuhn – at last – has noticed this central fact about all real science … that it is normally a habit-governed, puzzle-solving activity, not a fundamentally upheaving or falsifying activity … that actual scientists are now, increasingly reading Kuhn instead of Popper … in new scientific fields particularly, ‘paradigm’ and not ‘hypothesis’ is now the ‘O.K. word’.

There are a number of further points here as far as current developments within economics are concerned. First consider methodology. The current phase of economics imperialism has primarily reverted to the image of the discipline as engaging in falsifying activity and posing and testing hypotheses. According to Lazear (2000, pp. 102–3), for example, whose article and its title celebrate economics imperialism:[15]

> The power of economics lies in its rigor. Economics is scientific; it follows the scientific method of stating a formal refutable theory, testing the theory, and revising the theory based on the evidence. Economics succeeds where other social sciences fail because economists are willing to abstract. The old joke about a stranded, starving economist assuming a can opener to open a can of food pokes fun at our willingness to assume away what we believe to be unimportant or

> difficult details. Economists are used to posing the counterfactual question to do an analysis. What would one expect in the absence of the hypothesized effect? What would be observed? Do the data allow us to choose between various hypotheses? Economists are not alone among social scientists in following this method, but this form of enquiry has become standard for economic research.

In this light, the impact of Kuhn on economic methodology within the discipline has even been perverse. Initially, to the extent that there was a response to Kuhn, it was a shift towards recognizing the difficulties in principle and in practice of holding to positivism or the less stringent Popperian standards of falsifiability. Paradoxically, Kuhn thereby had the effect of justifying an unchanged practice of proceeding as if on the falsifiability track whatever its deficiencies, on the grounds that this constituted normal science. Economics as a discipline has rarely shown any interest in methodology, as observed by Blaug (1975) in commenting on the Kuhnian revolution,[16] and the prick of conscience prompted by Kuhn did little to upset its normal practices in this respect or in its attachment in principle to falsifiability. Indeed, the post-Kuhn movement in economic methodology has had the effect of removing it even further from the practice and knowledge of economists.[17] In short, what, from the perspective of critical realism, Lawson (1997) dubs the deductivist method characteristic of mainstream economics has, if anything, strengthened since Kuhn.[18] Consequently, a shift in methodology does not mark the current phase of economics imperialism. It is more of the same on, if anything, an even shallower basis, with less likelihood of critical self-reflection.

Second, on a more mundane level, to what extent has economics imperialism been associated with a shift in 'habit-governed, puzzle-solving activity'? On the face of it, very little has changed. Whatever its methodological deficiencies, mainstream economics has remained firmly committed to an unchanging method – one attached to methodological individualism of a special type, utility maximization, to equilibrium as an organizing concept, and to considerations of efficiency, the three distinctive scientific elements emphasized by Lazear (2000). In addition, the technical apparatus and the barrage of associated techniques has at most become a little more sophisticated and extensive – with the fundamentals in terms of production and utility functions being instantly recognizable.

Third, neither of the previous points sheds any light directly on what a paradigm (in economics) is and whether the current phase of economics imperialism represents or is best understood as a paradigm shift. In this respect, it is worth recording that Masterman's contribution is most often cited for highlighting the ambiguity of Kuhn's own use of the term 'paradigm'. She is credited with having discovered at least 21 different ways in which Kuhn used the term. She does, however, assign these to three broad types, the sociological, the metaphysical and the construct. The last two of these correspond, respectively, to the common previously observed distinction to be found in the literature, one suggested by Kuhn himself – between paradigm as world view or ‘disciplinary matrix’ and paradigm as exemplar. Here, the distinctive character of economics imperialism does emerge. Masterman (1970, p. 70) understands a ‘construct paradigm’ as an ‘artefact’: ‘For only with an artefact can you solve puzzles’.

With puzzle-solving as normal science, it is not difficult to identify the artefact associated with economics imperialism. It is the notion of asymmetric information and the consequences this has for market and non-market outcomes. Indeed, the founding artefact is an exemplary exemplar – the market for ‘lemons’, or second-hand cars, as laid out by Akerlof (1970).[19] It solves a number of puzzles – why the market might not work perfectly despite optimizing individuals and no exogenous impediments to market-clearing. As observed, there are three possible outcomes – markets clear but Pareto-inefficiently (there are buyers and sellers who would like to exchange at some other price), they do not clear (those on the short side of the market do not have incentive to change price in their favour), or there is no market at all (undermined by presence of moral hazard or adverse selection for example).

Following Akerlof, information-theoretic economics has proceeded by accumulating different types of informational asymmetries and applying them across an equally diverse range of markets. Although with the physical sciences in mind, Masterman (1970, p. 70) astonishingly and unwittingly anticipates recent developments within economics, as economists have searched out applications for asymmetric information:[20] ‘A normal-scientific puzzle always has a solution which is guaranteed by the paradigm, but which it takes ingenuity and resourcefulness to find.’ Further, as Chase (1983, p. 816) observes, a paradigm fills out a new analytical terrain:

> The acceptance of a new exemplary paradigm by a community of scientists will often require a redefinition of the corresponding science … some old problems may be relegated to another science or declared entirely ‘unscientific’, while others that were previously nonexistent or trivial may … become the very archetypes of scientific achievement.

In the case of economics imperialism, a wider definition of economic science is involved since it is not simply a matter of explaining market imperfections but also of incorporating the non-market responses to them, thereby establishing a presence within the other social sciences. Masterman suggests that a paradigm is established by taking an exemplar, A, and finding other applications for it, B, by analogy whereby B becomes A-like. This is precisely what has been characteristic of economics imperialism – for economic and social analyses have been reduced, respectively, to market imperfections and the non-market responses to them. From lemons or the market for second-hand cars, the entire terrain of economic and social theory is opened up!

Interestingly, Masterman (1970) considers that the exemplar attached to a paradigm is more important than its world view, or metaphysical element, and this seems to be borne out by the 'disciplinary matrix' attached to information-theoretic economics. How does the new information-theoretic economics differ from what went before? It takes as its point of departure the model of perfectly competitive equilibrium. In its place is posited an imperfectly competitive world, with imperfect markets and imperfect information, leading both to inefficiencies and to non-market responses to them (whether these correct market imperfections or not). In other words, the world vision of the new approach is its micro-foundations writ large. In the case of development economics, for example, Stiglitz and Hoff (1999) argue that:[21]

> In leaving out history, institutions, and distributional considerations, neoclassical economics was leaving out the heart of development economics. Modern economic theory argues that the fundamentals [resources, technology, and preferences] are not the only … determinants of economic outcomes … even without government failures, market failures are pervasive, especially in less developed countries.

Further, with casual reference to the Black Plague, as an illustrative accident of history (like AIDS today?), and multiple equilibria, an explanation is provided for the fundamental problem of why 'developed and less developed countries are on different production functions': 'We emphasize that accidents of history matter … partly because of pervasive complementarities among agents … and partly because even a set of dysfunctional institutions and behaviors in the past can constitute a Nash equilibrium from which an economy need not be inevitably dislodged.' This appears an ideal illustration of Kuhn's (1970b) own understanding of how paradigms are generated by, and transformed into, an evolving disciplinary matrix. There are symbolic generalizations, of which production functions and Nash equilibria are archetypal. The metaphysical content of 'modern economic theory' is one of 'failures' – market, government or otherwise – as opposed to the ideal, perfectly competitive, world of 'neoclassical economics'. Values within a paradigm are of two types – those concerning predictions and puzzle formulation, and those attached to overall consistency, simplicity and plausibility. For the new approach, there is a common reliance with the old both upon econometrics and upon a method of optimizing individuals, but the puzzles are about how the market understandably works imperfectly rather than how it diverges from perfection because of externally imposed constraints.

The third broad category of meaning of paradigm identified by Masterman (1970) is the sociological as opposed to the metaphysical (world view) or the construct (exemplar). This refers to the community of scientists and their common practices which, in retrospect, Kuhn (1970b) confesses he would have taken as his analytical and expositional starting point whilst recognizing that paradigm and scientific community set up a vicious definitional circle in terms of who does what. Paradoxically, although the new approach appropriately presents itself as less dogmatic than the model of perfect competition that it has sought to replace, it has prospered in an intellectual climate in which economics as a discipline has become more intolerant of alternatives. Radical political economy has been considerably depleted and, even where it has not, the modelling and statistical techniques of the orthodoxy are increasingly imperative as a condition of entry to the profession, to the exclusion of almost all else. Blaug (1998a, p. 12) reports from John Hey, previously managing editor of the *Economic Journal*, that there is a 'journal game', based on use of irrelevant material, the stylized facts observed by an author, and designed to demonstrate cleverness rather than address crucial economic problems. Blaug (1998b, p. 45) himself opines: 'I am very pessimistic about whether we can actually pull out of this. I think we have created a locomotive. This is the sociology of the economics profession. We have created a monster that is very difficult to stop.'

Blaug (1998a, p. 11) also reports from a survey of a lack of interest in the real world on the part of elite graduate economics students who prefer to hone their skills in the latest econometrics and mathematical economics.[22] Particularly striking is the degree of Americanization of economics, as a source of training and of peer research.[23] Thus, theory is not a matter of individual choice but follows from 'the nature of the scientific group, discovering what it values, what it tolerates, and what it disdains' (Kuhn, 1970a, p. 238). Tacit knowledge plays a major role, with membership of the profession having 'learned by doing science rather than by acquiring rules for doing it' (Kuhn, 1970b, p. 191). Despite the emphasis upon econometrics in contemporary economics, there must be considerable doubt about whether it is conducive to a dialogue between theory and the real world in anything other than a formal sense. This point is illustrated, for example, by Barro-type regressions for the new growth theory and the corresponding methodology involving the inclusion of as many variables as possible to test (conditional) convergence and to assess the impact of these on economic performance.[24]

There can be little doubt, as Garnett (1999) observes, that mainstream economics continually and dogmatically reasserts its scientific status and superiority relative to other forms of economic discourse, thereby creating boundaries for definition of the profession, entry conditions, and associated benefits in employment, prestige, financial support and intellectual independence. But, why as a discipline should it seek to extend its supposedly superior form of science to other disciplines, over and above its enhanced capacity to do so in light of the new information-theoretic economics? It is possible to posit a certain maturing in the current dynamic of the discipline and its disciples. First, observe that the conditions of entry to the intellectual vanguard of the profession are extremely technically demanding. As the degree of mathematical and statistical sophistication has been ratcheted up, so existing professionals who do not conform have found themselves marginalized to a greater or lesser extent. On the other hand, the newly trained academic economists have been highly tuned in the techniques and are growing in numbers. On casual observation, and discussion with colleagues, there is now no shortage of 'American-trained' economists, searching out careers.

Second, in a world in which publish or perish and a doctorate is not enough, the new recruits need outlets for their abilities, satisfied to some extent by the emergence of new journals. But a crucial intellectual factor is involved here. This is that the analytical and technical *principles* underlying the new information-theoretic approach are demanding but, once commanded, are limited in scope and economic application. It is simply one market imperfection after another. Whether by virtue of intellectual boredom of those who are already well established – one more market, one more twist on a technique – or the search for new avenues by those who have yet to establish themselves, the other social sciences provide a virgin terrain on which to play out those skills that would otherwise exhibit rapidly declining marginal productivity! In effect, neo-liberalism is the death of economics because, if the market works perfectly, there is no need to study it. By contrast, the market imperfection, information-theoretic approach keeps the discipline alive but only at the expense of intensifying technical virtuosity, relying upon ever more esoteric models and, most important in reserves of potential, by extension to non-market applications.

Third, academia in general increasingly depends upon external research funding. Compared to their colleagues in business, accounting, marketing and finance, academic economists are generally unsuited to serving the needs of the private sector. Where they are able to oblige, the rewards they can command by being within the private sector itself heavily outweigh those of remaining within academia. On the other hand, economists have also been less than willing and attractive participants in more publicly minded research, not least because of being unworldly. As Balakrishnan and Grown (1999, p. 135) reveal in their study of foundation support for economic research:

> When the Ford Foundation funded multidisciplinary graduate programs in social science and health, for example, it found it impossible to convince economists to join the effort. Similarly, when the MacArthur Foundation sponsored a competition for multidisciplinary research on the human dimensions of global environmental change, economists were generally absent from the teams of investigators.

However, in deploring this absence of economics, Balakrishnan and Grown are heartened by ‘recent developments in economics and philanthropy [that] provide new openings to reexamine and renegotiate this relationship’. They refer specifically to ‘lively interest in the economics of information and incentive problems due to asymmetric information in settings as varied as the provision of public services, labour markets, credit markets, insurance markets, and Third World agriculture’ (pp. 124–5). Thus, intellectual, professional and personal imperatives have been conducive to the outward thrust of economics imperialism, consolidating a paradigm of market imperfections extended to non-market outcomes. It allows for (competition for) jobs, publications and grants!

4. PARADIGM SHIFT?

In short, it does appear to be possible to argue that there is a new paradigm within economics, one that emphasizes market (as informational) imperfections at micro- and macro-levels, one that is deeply embedded within mainstream neoclassical methodology, and one that addresses the non-economic as well as the economic. Yet, given that the ways of characterizing a paradigm are so multifarious, it is hardly surprising that it is possible to fit it in various ways to the new approach. Within the debate over Kuhn, however, whether and how shifts take place *between* paradigms has been more problematic. Indeed, Toulmin (1972, p. 107) suggests that: ‘The theory of scientific revolution is, thus, quite independent of the theory of paradigms. This, rather than the term “paradigms”, is the distinctive feature of Kuhn’s analysis’.

For scientific revolution, a standard account of Kuhn would point to the fruitfulness of a paradigm in throwing up and solving problems as a matter of normal science. But the paradigm also has its dark side in creating empirical and theoretical anomalies that it is incapable of accommodating. Once these become too heavy in number or weight, they create the potential for a new paradigm to emerge that is capable of resolving the anomalies of the old. In other words, normal science proceeds within a given paradigm through incremental change until a revolutionary change gives rise to a shift between paradigms.

This framework for understanding shifts between paradigms has been subject to considerable criticism for science, let alone for social science. First, it has been observed that the difference between paradigms is not so sharp in content. As Toulmin (1972, pp. 105–6) has put it:[25] ‘We must face the fact that paradigm-switches are never as complete as the fully-fledged definition implies; that rival paradigms never really amount to entire alternative world-views; and that intellectual discontinuities on the theoretical level of science conceal underlying continuities at a deeper, methodological level.' Such is certainly true of the emergence of the new approach to economics, with its predominantly breaking with the old only by introducing informational imperfections and broadening the scope of application to the non-economic. Second, it is argued that the break between paradigms is much less dramatic, bringing the distinction between normal and revolutionary science into question, with all change proceeding through incremental shift and self-criticism. As Bronfenbrenner (1971, p. 150) observes for economics: 'Important advances tend to be major *accretions* without any corresponding rejections of existing paradigms.'

Again, such reservations are appropriate in describing the emergence of the new approach. This is especially so in view of the limited extent to which it challenges the methodology of the old approach. Kuhn's account of the sharp break between paradigms both in outlook and passage between them is dependent upon two important features. On the one hand, empirical observation of the same phenomena would be interpreted differently. On the other hand, the criteria for judging theory would also be incompatible across paradigms. Kuhn (1970a, p. 234) observes critically of Popper that:[26]

> He and his followers share with more traditional philosophers of science the assumption that the problem of theory-choice can be resolved by techniques which are semantically neutral … canons of rationality thus derive exclusively from those of logic and linguistic syntax. … [and] the existence of a vocabulary adequate to neutral observation reports.

In short, both observation and theory-choice are paradigm-dependent. Whilst Kuhn has been criticized for neglecting the extent to which both observation and criteria can be commonly accepted across different paradigms, the new approach seems identical to the old in these respects.

Kuhn's response to the criticisms reported in this section – the distinctions between paradigms and between normal and revolutionary science are not sufficiently sharp – has been to suggest that revolutionary science is more, not less, common than generally supposed. This ultimately leads Toulmin (1972, p. 117) to conclude that, as all theoretical change becomes potentially revolutionary, 'on his latest reinterpretation, Kuhn's account of "scientific revolution" rests on a logical truism and – as such – is *no longer a theory of conceptual change at all*'. Possibly, in anticipation of such a charge, given his assessment of an increasing frequency of revolutionary as opposed to normal science, Kuhn (1970a, p. 252) suggests, 'the gist of the problem is that to answer the question "normal or revolutionary?" one must first ask, "for whom?"'[27].

This is particularly germane to economics imperialism. Much of the thrust of the previous discussion points to the limited extent to which it represents a

Kuhnian revolution *within* economics, even if the notion could be accepted as appropriate.[28] Indeed, far from the new information-theoretic economics serving as a break, as it sees itself, with the new classical economics with its reliance upon perfectly working markets, the rational expectations hypothesis can be seen as an important stepping stone between the two approaches. As Davis (1997, p. 299) remarks of the New Classicals, 'Their sudden repopulation of the world with a new type of economic agent simultaneously made extinct an older type of being: the naïve victim of money illusion, whose expectations adapted but gradually to changing circumstances.'. This is particularly germane to the new approach given that market imperfections are far from new to mainstream economics. In opposition to the New Classicals, though, they have to be endogenized, and how appropriate to do so on the basis of perfect calculation in face of informational imperfections. So the significance of the new approach does not lie primarily in its impact upon economics. It is more important for its influence upon other social sciences, reinforcing the presence of a rational choice methodology and/or reducing the social to the consequences of informationally based market imperfections.

5. PARADIGM LOST, REGAINED OR RECONSTRUCTED?

The previous two sections have focused upon what distinguishes one paradigm from another and how shifts take place between them. This section is more concerned with why those shifts take place and with providing illustrations of economics imperialism in action. For the former, whilst some attention has been placed on needing to overcome the individual and professional inertia created by an existing paradigm, and its associated community of scientists whose outlook is incompatible with a newly emerging paradigm,[29] this cannot be exclusively decisive. For, otherwise, there would never be any intellectual change, nor could its direction be determined.[30] Two further explanatory elements have been decisive in the literature, the role of external and internal factors, otherwise understood as relativist or absolutist approaches, respectively, to intellectual change.[31] The absolutist position understands intellectual change as arising out of the inner logic of the discipline itself.[32] In the case of the new information-theoretic approach, it is not difficult to identify the inner source that prompted it as a response. With the rise of the new classical economics, and its assumptions of rational expectations and perfect market-clearing, economic fluctuations were explained entirely in terms of random and unanticipated shocks. There would also be no impact from government intervention, as its intentions would be neutralized by economic agents deploying available information and models of the economy optimally. It is hardly surprising that the new micro-foundations should take the two crucial assumptions of the new classical economics as its point of departure. On the one hand, information is asymmetric between agents (a point already recognized in a perverse way by the new classical economics insofar as government as an economic agent could affect outcomes with a surprise, or unanticipated, policy package). On the other hand, this can be used to explain, rather than to assume as in earlier microeconomics, why markets might not clear perfectly.[33]

The rest, as the saying partially goes, is history of economic thought. But the rise of the new approach, even in absolutist terms, is marked by two anomalies or special features. First, it explicitly set itself the goal of restoring the earlier paradigm that preceded the new classical economics, namely Keynesianism. To do so, however, it had to reconstruct it on micro-foundations, complementing earlier fixed price models (the reappraisal or disequilibrium (re)interpretation of Keynes) with an explanation for why prices might be inflexible. Second, it opened up the non-economic as the non-market response to market imperfections, paving the way for a new phase of economics imperialism. In addition, as already mentioned, developments within the discipline have been associated with the driving out of alternative approaches, or incorporating them on its own terms, especially those attached to radical political economy.

To explain all of this requires some movement towards the relativist approach – how intellectual developments are influenced by socio-economic conditions in the external environment. The rise of the new classical economics is heavily associated with the broader emergence of neo-liberalism and the idea that government is both bad and too extensive. The market should be allowed to prevail wherever possible, seeking to mould the world in the virtual image of perfect competition,[34] and, not surprisingly, the non-market should be understood as far as possible as if it were a market as in the economic analysis promoted by Gary Becker. With the collapse of the socialist economies, the new approach has been perfectly placed to offer a more palatable and progressive alternative – charting a course between socialist planning and neo-liberalism, and constructing a virtual world of market imperfections and the non-market responses to them.

But, for economics imperialism to have any success outside the discipline of economics, other disciplines had to be receptive to its incursions. Previously, other than for rational choice approaches, which had gained ground unevenly across the social sciences in the wake of neo-liberalism, there have been two major stumbling blocks for a colonizing economics. One has been overcome to some extent. This has been the need for economics to take the social, the structural, the institutional, the customary as given or even irrational. Now, albeit on the continuing basis of methodological individualism, this is no longer so – the social can be explained as the rational, longer-term response to market and informational imperfections. The second impediment is insurmountable and loomed large as neo-liberalism prevailed. Postmodernism has placed considerable emphasis on the social (and individual) construction of the meaning of things, the consumption of the sign of things, for example, rather than the things themselves. As a result, in the extreme, the associated subjectivity has predominated over, and excluded, close examination of the material processes involved in social (de- and re-) construction. On the other hand, economics has traditionally taken all objects at face value and as unproblematic within its own vernacular of utility, inputs production, and so on.[35] Postmodernist social science and economics are simply incompatible, although postmodernism had the perverse effect of abandoning economic analysis to the economists.[36] Now, however, across the social sciences, there has been something of a retreat from postmodernism and a wish to refocus upon material, including economic, factors. With mainstream economics currently able to claim that history, institutions, and customs matter, it has made advances across other social sciences despite its continuing, but veiled methodological deficiencies from the perspective of alternative disciplines.

It is crucial to recognize, however, how recent and faltering are these shifting parameters in the external (intellectual) environment with which economics imperialism interacts. Equally, as with the past influence of postmodernism, whether by topic or discipline, the impact has been both uneven and diverse, as will be the retreat from its excesses. Yet, as has been seen with the bringing of the social back into economics, the ex ante ‘paradigm’ is not liable to be restored. Departure from it will even be greater than before. Thus, to adopt the Kuhnian terminology, the prospects for paradigm shifts across the social sciences as they accommodate or confront the retreats from postmodernism and neo-liberalism as well as the colonising designs of economics, are uncertain. As will be argued, they are still to be contested.

At a general level, this is to raise a question that has been notable for its absence from Kuhnian discussion, especially across the social sciences. Here, it has been more or less taken for granted that interdisciplinary boundaries are sacrosanct. It is simply a matter of one approach taking over the given subject matter from another, even if giving frameworks, methods, concepts, theories and evidence a tweak or two. Economics imperialism, of course, is about something else, seeking to disregard interdisciplinary boundaries. But, in doing so, does it move the boundaries by incorporating the previous subject matter of other disciplines or does it merely violate these boundaries, bringing economics to bear within continuing interdisciplinary demarcations?

There is no general answer as will be illustrated by two examples taken from success under the ‘old’ economics imperialism. One of the most prominent has been human capital theory. Initially, it met with considerable opposition. As Becker (1993, p. xix) observes in proud retrospect, 'a dozen years ago, this terminology would have been inconceivable'. The obstacle to acceptability of the approach centred on aversion to the notion of education as comparable to an accumulated physical asset with productive potential. This objection has not so much been dissipated as overlooked. For, despite continuing to flourish within economics on the same basis, human capital is used in entirely different and heterogeneous ways across the other social sciences, thereby reflecting their concerns and traditions. As a result, human capital has not primarily brought the subject matter of other disciplines under its wings. Rather, it has spread its influence across disciplinary boundaries. Thus, in sociology, human capital has been used as an element in social stratification. As such, its application in identifying the origin, nature and reproduction of social classes is inconsistent with its origins in the methodological individualism of mainstream economics, and the notion of education, and so forth as an input or output in some or other production function.[37]

A totally different outcome is represented by the case of finance. This is now more or less taken for granted as being a sub-discipline of economics, especially as far as high level theory and empirical work are concerned. As Harrison (1997, pp. 174–5) remarks:

> For a long time, the study of financial markets was not done by economists … that economists did not do research on financial markets … is not completely to say that no research was done on them. Nonacademic 'how-to' books of investing, written by practitioners, were plentiful. Academic insights were sparser.

This is illustrated by the fate of Harry Markowitz, who received a Nobel prize in economics in 1990 for his work on finance, but who completed his first work in the form of his University of Chicago (successful) doctoral dissertation in 1955. As reported by Harrison (1997, p. 176), citing Bernstein (1992), Milton Friedman's comment on Markowitz's work was as follows: 'Harry, I don't see anything wrong with the math here, but I have a problem. This isn't a dissertation in economics, and we can't give you a Ph.D. in economics for a dissertation that's not economics. It's not math, it's not economics, it's not even business administration.'

Harrison provides an account of how, from these shaky beginnings, finance became incorporated within economics through reliance upon arbitrage and perfectly working markets, parodying the process itself as one of intellectual arbitrage. Thus (p. 180):[38]

> From the standpoint of an academic economist, financial markets had been converted from the most tangled underbrush to the pristine ideal of textbooks. Here were perfect markets – a market where the power of arbitrage was supreme; where thousands of individuals with millions of dollars in incentives were pursuing

> information and pouncing on arbitrage opportunities. The traded good was almost as generic as a widget; there was plethora of publicly available information, there was easy entry and exit; and trading was relatively costless and free from other frictions. The theoretical implication of such perfectly functioning markets was that they were efficient. The invisible hand would enforce not only the 'right' price but also the 'right' allocation of resources. The casino could be trusted. What more inviting place for economists to venture?

Further, from a position of lying outside economics, finance as a sub-discipline of economics has not only been transformed but has leapfrogged into the vanguard (pp. 182–3):[39]

> Regardless of whether economics was profoundly changed, finance certainly was … In fact, finance has become the 'proving ground' for new price theory and econometric technique. This puts the field at the forefront of the technical envelope, as measured by the use of mathematics and computers. Because of the availability of large quantities of data, because of the desirable properties of stock prices, and because of the monetary rewards to a 'successful' innovation, it is still the most ideal 'real world' market. But this has created some kind of a feedback effect, where innovations in finance have found their way back to the 'rest' of economics. In particular, this is true for statistical and computer techniques.

Now it would be worthwhile investigating in greater depth how and why finance has become incorporated into economics but applications of human capital have not. This is not the intention here. Rather it is to highlight two factors that these illustrations share in common despite their different outcomes. First, by choice, they are both examples of the old economics imperialism, having established themselves in the Becker-type, more generally Chicago-like, mould of an 'as if' world of perfect markets. Yet, each has also moved on effortlessly from that old to the new world of market, especially informational, imperfections. In the case of human capital, it now prospers despite, even because of, acknowledgement of such imperfections in the provision (in schools) and use (in labour markets) of human capital. Paradoxically, one of the leading proponents of the economics of education, Mark Blaug (1987), was converted from a 'True Believer' in view of market imperfections, especially labour market screening. Nonetheless, human capital has steamed ahead with market imperfections being used, as argued by Fine and Rose (2001), as a way of bringing back in on a selective basis some of what has been left out – the specificity of education and of labour markets.

For the economics of finance, the impact of the new information-theoretic economics has been even more dramatic. Whilst the incorporation of finance into economics might have originated with, and been founded upon, the implications of perfectly working markets, the forefront of the sub-discipline is now entirely concerned with the implications of imperfectly working markets. These extend to the non-market, thereby providing a theory of financial systems, archetypically Anglo-American or market-based and German–Japanese or bank-based, according to the extent of non-market relations between borrowers and lenders in dealing with market (informational and contractual) imperfections.[40]

A second general feature shared by human capital and the economics of finance is that they have marched forward only by displacing existing analyses – initially by cutting insights out altogether and, then, by reincorporating them on a selective basis within the framework of market imperfections. As already emphasized, both are established through 'as if' perfect market as starting point. For education, as argued by Fine and Rose (2001) amongst others, this leads to the closing of two black boxes. One is the provision of education itself – it is merely reduced to a stream of costs and benefits. The other is the workings of the labour market – it becomes like any other in serving both as a factor input and a direct source of (dis)utility, Fine (1998a). What is notably absent is any idea of education and the labour market as *systems* as emphasized for example in traditional educational and industrial relations literature. Nonetheless, systemic features are re-introduced as market imperfections.

Much the same is true of finance, not least in the progress from 'as if' perfect to 'as if' imperfect markets to which systemic differences have been explicitly reduced. As a consequence, longstanding literature on the nature of financial systems, and their contribution to growth and development, have been studiously ignored. It is as if the debate over Perry Anderson's hypothesis of the peculiarity of the English simply did not exist.[41] Such literature – in dealing with the economic, political and ideological power of a financial fraction of capital – is not readily amenable to interpretation as market imperfections! In this respect, it is worth highlighting Crafts' (1999c) comment on Gerschenkron who emphasized how state intervention, especially to mobilize finance for investment, is crucial to 'latecomer' economic development:[42]

> Gerschenkron on development from conditions of economic backwardness still deserves to be read and might usefully be revisited from the perspective of modern microeconomics.

It is apt to close discussion of finance with Crafts for he is a leading British (new) economic historian. Economic and social history has also experienced a longstanding dialogue with economics imperialism. The new economic history is now entering its fifth decade. Again, its initial phase was marked by an approach on the basis of an 'as if' perfect market. As a result, a wedge was driven between social and economic history, one emphasizing culture, institutions and so on, and the other the relentless forward march of supply and demand and more propitious property rights. Significantly, in the United States where economics and economic history have traditionally been located within the same department, this accentuated the division between the two approaches in personnel, professional associations and journals (Lamoreaux, 1998). As Livingston (1994, p. xv) suggests, this created 'fields that stopped talking to each other around twenty years ago, when the "new economic history" and the "new social history" partitioned the discipline and encouraged the settlement of their respective territories'. A rampaging cliometrics was, thereby, caught on the horns of a dilemma. For economics as a discipline was becoming more history-less. Not only, as previously discussed, did it have a decreasing interest in its own history as a discipline but it also had no need to study history at all.[43] Economics could hardly take over history by eliminating it other than as a source of data and loosely formed hypotheses!

The new information-theoretic economics has played a major part in seeking to renegotiate the impasse between the two schools of history, as evidenced by a series of edited volumes emanating from Brookings, Temin (ed.) (1991), Lamoreaux and Raff (eds) (1995), and Lamoreaux et al. (eds) (1999).[44] They accept that the old cliometrics was wrong to have excluded history in the form of institutions, customs, culture and the like. But these can be brought back in as the non-market response to market imperfections, with history taking the form of path dependence of various sorts. Indeed, on this basis, the ambitions of the 'newer' economic history are no less than those of the old cliometrics. For Lamoreaux et al. (1999, p. 10):[45]

> Although … previous volumes dealt with learning processes, the present volume moves this theme to center stage by asking explicitly how firms, industries, and even nations can learn to overcome uncertainty … The essays in this volume thus mark a transition from focusing on problems that are common to a whole class of firms or industries to explaining why firms, groups, and nations can differ in important and persistent ways.

Recent developments in cliometrics, then, reinforce the point that the current phase of economics imperialism is about negotiating the re-introduction of the social and historical into economics irrespective of whether this leads to shifts of or across disciplinary boundaries. The same applies, if in a different way, to economic geography. For, during the phase of postmodernism, it was marked by a distinctive rhythm and content, especially when compared to economic and social history. In particular, the influence of postmodernism led to an intensive focus upon the social construction and meaning of space itself. By the same token, further incursions of mainstream economics – with a longer standing presence than for history – were stoutly resisted with an ill-concealed and general contempt. As a result, political economy established a powerful presence within the discipline, giving rise to a cultural turn but not at the expense of the economic.[46]

What implications does this have for the arrival of the new information-theoretic economics upon the scene? First, there has been the emergence of an associated new economic geography, especially associated with Paul Krugman. It has been sufficiently successful to warrant a contribution to the *Journal of Economic Surveys* (Schmutzler, 1999). His is, unwittingly, a telling testimony to the themes of this chapter. In this light, it is worth reproducing his conclusions at length (p. 373):

> First, history matters in the development of agglomerations. Cumulative processes generated by positive externalities can lead to the development of core-periphery structures even when no region has natural advantages. Second, transportation costs, the strength of scale economies and the importance of footloose industries are important factors determining whether such industrial concentration is likely to develop. Third, continuous changes in such parameters can lead to a discontinuous change in economic structure. Fourth, there are possible implications for trade: if positive externalities play a role, increasing economic integration affects both the distribution of manufacturing and the geographical distribution within the manufacturing sector. Fifth, there are interactions between the trade policy and the regional structure of an economy: increasing integration may lead to decreasing concentration within the economy. Sixth, models with transportation costs are helpful ways to understand the causes and consequences of multinationals.

Further, he confesses, (p. 357), 'no single one of these aspects is new to spatial economics'.

Significantly, none of this has anything to do with geography other than in the limited adoption of some of the vernacular, occasionally of a radical disposition as in reference to core-periphery and the spatial. As a result, the new economic geography can only contribute in a negative sense to the discipline as sharply elaborated by Martin (1999) in his devastating critique.[47] For he points to what is the stripped down restoration of what has been legitimately rejected and the omission of what is essential (p. 77). In terms of the incorporation of history, for example (p. 76):

> The 'history' referred to is not real history: there is no sense of the real and context-specific periods of time over which actual spatial agglomerations have evolved (and, in many cases, dissolved) … Thus, while the claim that 'history matters' is certainly correct, the treatment of history in the new economic geography is more metaphorical than real and, despite the importance assigned to path dependence, this notion remains a conceptual and explanatory black box.

In addition, Martin highlights Krugman's view that geography had lost five traditions that the latter intends to restore – location theory, gravity and potential models, cumulative causation, land use and land rent models, and local external economies. Here is an economist delving into the history of thought, and getting it wrong. For, as Martin argues, these traditions were not lost but rejected (p. 81):

> They were deliberately abandoned on philosophical and epistemological grounds, as part of the large-scale movement away from logical positivism that occurred in geography at that time. The location-theoretic, regional science models were cast aside not because the mathematics of maximization-and-equilibrium had (temporally) reached their limits, nor because geographers were unable intellectually to elaborate those mathematical tools, but precisely because of the realisation that formal mathematical models impose severe limits on our understanding. Geographers became more interested in real economic landscapes, with all their complex histories, local contexts and particularities, and less entranced by abstract models of hypothetical space economies.

Thus, Martin concludes, the new economic geography is 'neither that new, nor is it geography. Instead, it is a reworking (or re-invention) – using recent developments in formal (mathematical) mainstream economics – of traditional location theory and regional science' (p. 65).

As such, Martin is concerned that the new economic geography is both flourishing and capable of being turned to policy issues.[48] Significantly, though, in terms of interdisciplinary boundaries and intra-disciplinary content, the impact of economics imperialism in this case is potentially indirect, not involving economics directly but the relations between economic geography and regional science. Thus, this and the other examples presented in this section, illustrate the diversity in extent, content and outcome as far as economics imperialism is concerned. The Kuhnian approach to paradigm shift, including the idea of an attached community of practitioners, has been unduly preoccupied with the displacement of one by another set of scholars and their beliefs. Whatever its other merits and deficiencies, this leaves it ill-equipped to address the shifting boundaries and content across disciplines.

The separation of the social sciences into disciplines is, after all, extraordinarily recent in the sweep of intellectual history. Whilst the divisions between them were created more or less at the same time, alongside the marginalist revolution within economics, their subsequent paths have been different and variously influenced. In case of sociology, for example, Velthuis (1999) has shown how sociology was distinguished from economics in the eyes of Talcott Parsons, the leading functionalist of the discipline, by its method rather than by its subject matter – dealing in the social as opposed to the individual. Further, Connell (1997) has shown how the initial impetus to sociology was given by confrontation with those other worlds revealed by imperialist expansion, raising the issue of what characterized the modernity of the colonizing powers by way of contrast. Only after such concerns had been safely set aside, not least with the horrors of civilization associated with inter-war fascism, could the enduring classics of sociology – Marx, Weber, Durkheim, and so on – be sanitized and canonized as dealing exclusively with the social relations, structures and even conflicts of modernity. Meanwhile anthropology emerged as a separate discipline to deal, primarily ethnographically, with the intellectually initiating world that had been abandoned by sociology.

According to the model that economics imperialism has of itself, such considerations are simply irrelevant. It really does not matter how the other disciplines arrived at where they are; it is only necessary to recognize that economics can and should sweep across them in view of its superior science and rigour. Such a model of its influence on social science is, however, totally inappropriate irrespective of its own false claims as scientific. For, as heavily emphasized by Callon in his work on science and technology, the ‘overflowing’ of concepts from one application, frame of reference or expertise to another involves a transformation of those concepts.[49] They have a different meaning and application when used by others, whether as experts or not in their own fields of endeavour. Further, those meanings are contested however they may or may not be incorporated. In other words, the impact of economics imperialism and of the economic within the other social sciences remains open, subject no doubt to external influences, but also to the internal dynamic of intellectual debate itself.

6. CONCLUDING REMARKS

As mentioned at the outset, the goal here has not been to apply Kuhn to economics imperialism nor to resurrect Kuhnian notions of scientific change. If anything, this chapter has reinforced the criticisms of Kuhn that have previously been made in terms of the coexistence of paradigms, the lack of sharp differentiation between them and normal and revolutionary science, and the capacity for both observation (or empirical work) and criteria for assessing analysis to be common across apparently distinct paradigms. Nonetheless, the significance of Kuhn, now as before, is in its emphasis upon perceiving science as the social construct of a community, not governed primarily, let alone exclusively, by its own or an absolute standard of truth. Indeed, the main message of this chapter is that very small changes have taken place *within* economics with the new approach. As far as exemplars are concerned, those of perfect competition have been set against those of imperfect information. For the disciplinary matrix, deviation from perfect competition, as a world view, due to economic and social impediments to the market has been challenged by a vision of market outcomes based on imperfect information and non-market responses to them. Pretty much everything else is and is recognisably the same, other than the even more severe exclusion of alternatives and the ever more demanding technical standards of the profession.

Yet, on such a limited basis, economics imperialism is prospering as never before. Lest this be considered an exaggeration despite all the new fields shooting up in and around the discipline, it is worth acknowledging how human capital, a talisman of the old approach, has spread its influence across the social sciences despite initial reservations. The same is already happening with social capital, with its leading proponent, Robert Putnam, reputedly the most cited author across the social sciences in the 1990s, Fine (2001a, Chapter 6). This is not to suggest that social capital is purely or primarily an artefact of economists. It is, however, open to capture by them, as the catch-all for the non-economic. Otherwise, social capital is used by non-economists to avoid, at most shadow-box with, economics in suggesting that civil society, institutions, customs and values, or whatever are important and have been neglected by economics. But this is no longer the case, and almost all social capital analysis is subject to capture and re-interpretation by a colonizing economics, even as social capital itself is used to appropriate and transform social theory in its own image.

Social capital is just one of the ways in which economics imperialism is engaging with social theory. By way of more general summary and consideration of strategic implications for those engaging in radical political economy, a number of points can now be posited:[50] First, as a discipline, mainstream economics is increasingly subject to an esoteric and intellectually bankrupt technicism that is absolutely intolerant of alternatives and only allows for them to survive on its margins. Despite its considerable and longstanding methodological and theoretical fragilities, there is no sign that this situation is liable to change as a result of internally generated critique. Second, and paradoxically, the influence of economics on other social sciences is stronger than at any other time in the post-war period. Nonetheless, third, the depth, extent and nature of its influence by topic and discipline are diverse, not least in light of continuing traditions and content of other social sciences. Fourth, the openness of the other social sciences to economic arguments also reflects the current intellectual retreat across the social sciences from the excesses of both postmodernism and neo-liberalism, although their presence and continuing influence occasionally remain strong. Fifth, the main analytical basis for the current influence of mainstream economics arises out of the new information-theoretic economics through which both the economic and the social (treated as mutually exclusive opposites) are perceived as the response to market, especially informational, imperfections. Sixth, this involves, on the one hand, an extraordinary reductionism of the social to informational imperfections while, on the other, considerable scope for inscribing (bringing back in) the social by plunder of concepts and insights from other social sciences (ranging from trust and customs to institutions, and so on). Seventh, in the realm of methodology, the social sciences remain generally hostile to the methods and postures of mainstream economics, when they are explicitly confronted rather than informally incorporated. Nevertheless, rational choice adherents have made much headway in sociology, political science, history, and elsewhere. Eighth, within mainstream economics, despite the absolute dominance of methodological individualism in its current form and the widespread belief in the harmonious, if at times flawed, properties of free market capitalism, there is no unified ideology comparable to post-war Keynesianism or mid-nineteenth-century Ricardianism. Rather, orthodoxy is more a matter of adhering to technique and adopting a certain approach in resolving theoretical and empirical problems. As a result, both in popular and academic discourse, the diffuse nature of the new orthodoxy – its postures are contingent on the incidence and nature of market imperfections – makes challenges to it more difficult and less influential (unlike potential for opposition to the challenge to neo-liberalism). Ninth, on the other hand, there is a weakened appeal as far as other disciplines are concerned where the social and the systemic are genuinely taken as starting points, as in attention to relations, structures, conflict and power. Finally, this leads directly, as an alternative to economics imperialism in developing an economics for the social sciences, to the following questions, traditional within political economy.

- What is the appropriate value theory by which the issues of power and conflict can be comprehended in the context of capital accumulation?
- What is the relationship between classes and the state and how do they resolve and sustain a system of accumulation?
- What is the relationship between the financial and industrial systems in the process of accumulation?
- What are national differences in systems of accumulation?
- Why are sustained periods of economic growth punctuated by crises?
- What is the relationship between economic and political systems and how can they be addressed by a genuinely interdisciplinary approach?
- How do the new world order, US hegemony, and the factors associated with ‘globalization’ impact upon the prospects for growth and development?

In short, economics might be thought of less in Kuhnian terms and more like the Roman Empire, continuing to expand even as it is subject to intellectual decay from within. In this light, we are not only confronted by the barbarianism of economics imperialism but also, in a more constructive vein, by the task of restoring political economy as a central component of the social sciences. It was initially excised by the marginalist revolution and, subsequently, by the extremes of postmodernism. It now has the potential to prosper once more. It is an opportunity that must be grasped, with an appropriate understanding to the fore both of capitalism in general and of its contemporary character.

NOTES

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1. de Vroey (1975) observes, for example, correct from my own memory, how influential Kuhn had become in discussion of history of economic thought. In preparing this chapter, however, I have been struck by how little Kuhn's influence has been reflected in practice in journal publications in economics.
2. For Kuhn applied across the social sciences, see Gutting (ed.) (1980). Khalil (1987) reviews the application of Kuhn to economics but see also Gordon (1965), Coats (1969), Bronfenbrenner (1971), Kunin and Weaver (1971), Karsten (1973), Ward (1972), Stanfield (1974), de Vroey (1975), Blaug (1975), Chase (1983), Dow (1985), Argyrous (1992 and 1994) in debate with Dow (1994).
3. No doubt evidence for the last sentence is provided by those that come before it, and their extraordinary misrepresentation of the classics. See also Davis (1997, p. 289): 'Since the *History of Political Economy* appeared nearly three decades ago, it seems as if most historians of economic thought have concluded that they no longer speak to other economists, and might accordingly focus entirely on thought that is no longer actively pursued by contemporary economists and on which history has closed the door.'

   Further, just as economics as normal science misrepresents the history of economics thought, so it misrepresents economic realities. With continuing relevance for contemporary economics, see Perelman (2000) for a striking critique of Adam Smith's failure to confront the economic, political and ideological realities attached to 'a relatively free market'. Finally, note that Coats (1969) reckons that Gordon is the first to apply Kuhn to economics.
4. See Coats (ed.) (1996), Hodgson and Rothman (1999), Bernstein (1999), Siegfried and Stock (1999), and Lee and Harley (1998), for example. Elsewhere, I argue that the prospects for political economy are much brighter in contributing to renewed interest in the economic across the other social sciences (Fine, 2002). See also the conclusion.
5. See Fine (1997a, 1998a and b, 1999a, 2000a–e, and 2001a–c) – and Fine (1999b) in debate with Bowden and Offer (1994, 1996 and 1999) and Fine (1999c) with Thompson (1997 and 1999), and Fine and Lapavitsas (2000) with Zelizer (2000) – for the general argument as well as for specific case studies. For evidence from the mainstream itself, see Becker (1990) and Lazear (2000), both of whom refer to economic imperialism and Olson and Kähkönen (2000) who prefer the telling metaphor of economics as metropolis and other social sciences as the suburbs. See also Frey (1999) who attracts praise from Nobel Laureates Becker, Stigler and Buchanan. I prefer the term 'economics imperialism', as well as colonization of the other social sciences, as opposed to 'economic imperialism'. The latter is favoured by the mainstream despite total neglect of its incidence in reality, on which see Perelman (2000).
6. Note, though, that Khalil (1987, p. 119) observes that Stigler, Schumpeter, Blaug and others have all denied that there was a marginalist *revolution*. But see de Vroey (1975) for a wide-ranging contrast on a 'before and after' basis.
7. Page references are to him but see also Barbour (1980) for an excellent précis of Kuhn and the debate that he induced.
8. See Becker (1976, 1990, 1993 and 1996) for example, and also Tommasi and Ierulli (eds) (1995), Becker and Becker (1996), and Febrero and Schwartz (eds) (1995).
9. See Fine (2000c) drawing upon Velthuis (1999).
10. For details, probably unnecessary for those trained in economics, see any of the references cited in note 5.
11. See Solow (1990) for example on why labour markets are different from those for fish – and he gets it wrong (Fine, 1998a)!

12. Lazear (2000) is salutary reading in this respect, putting into print in an issue of a leading journal devoted to the current state of economics, what is commonly to be heard from economists as a matter of course. For a critique of Lazear, see Fine (2002).
13. Boylan and O'Gorman (1995, pp. 27 ff) refer to a post-positivism phase as prevailing in economic methodology over the last quarter of a century, characterized by a desperate but unsuccessful attempt to rescue falsifiability from its inescapable fallacies.
14. Note that Kuhn (1970a) himself, in the absence of objective and universal criteria of theory choice, rejects a simple and liberal version of relativism, as in his dismissal of Paul Feyerabend who 'provides the exception that proves the rule …[for] he at once concludes to the intrinsic irrationality of theory-choice' (p. 234). For theory choice for Kuhn is not a matter of individual choice but follows from 'the nature of the scientific group, discovering what it values, what it tolerates, and what it disdains' (p. 238). On the other hand, he rejects the accusation that might is right in what passes for normal science but, equally, reiterates that neither inner logic nor external criteria alone can decide what passes for science (although all play a part). See also later discussion.
15. Note that his assertions about what economists do have long been known to be a false image of themselves. See Blaug (1980), McCloskey (1986) and Lawson (1997), for example.
16. See also Argyrous (1992).
17. As Lawson (1997, p. 12) quotes Frank Hahn in advising young economists, to 'avoid discussion of "mathematics in economics" like the plague', and to 'give no thought at all to methodology'.
18. This leads Lawson to the conclusion that methodology is the Achilles heel of mainstream economists. For an alternative view, see Fine (2001c).
19. More generally, see Akerlof (1984 and 1990), and Fine (2001a, Chapter 3) for comparison of Akerlof and Becker as economic imperialists, revolutionary and non-revolutionary, respectively, although Becker has become more revolutionary, and in the vanguard, with his adoption of social capital (Becker, 1996).
20. See also Chase (1983, p. 817), 'Normal science is a highly productive mechanism since, *within the context of the accepted exemplary paradigm*, it is keenly focused and goal-oriented'. Stiglitz (1994) provides a striking illustration. He poses and solves the problem of the economics of socialism from the perspective of information-theoretic economics, referencing over 100 of his own problem-solving articles along the way. As discussed later, his attention has subsequently moved to solving the problems of development by the same process.
21. This was previously anticipated by Stiglitz (1989) and formalized with his launching, as Chief Economist at the World Bank, of the post-Washington consensus (Stiglitz, 1998a). Note the title of his subsequent major contribution in this vein, 'Towards a new paradigm for development: strategies, policies and processes' (Stiglitz, 1998b), and how both economic history and development economics, and development studies more generally, come under the Stiglitz orbit.
22. See also Khalil (1987, p. 126) who, in drawing upon Leijonhufvud, observes, 'Isolating practitioners in an ivory tower allows the aesthetic criterion to play a role in theoretical endeavours … (with) beauty and elegance rather than empirical corroboration as the basis of theory selection.'
23. On all of this, see references in note 4.
24. More or less the same is true for testing the impact of trade liberalization, financial liberalization, and so on. For a critique of the new growth theory on these and more general scores, see Fine (2000a). For an account of the continuing corresponding flaws in econometrics, see Wible and Sedgley (1999).
25. He continues, 'This done, we must ask ourselves whether the use of the term "revolution" for such conceptual changes is not itself a rhetorical exaggeration'. The same has been suggested to me in terms of perceiving economics imperialism as a revolution! See also Stigler (1969, p. 225), 'If vast changes in the subject and techniques of a science can be accommodated within a paradigm, and hence do not constitute a revolution, Kuhn's assertion that a crisis is necessary to the emergence of a new paradigm is virtually a tautology.'

26. See, though, Dow (1985, p. 24): ‘Kuhn’s position was rendered ambiguous, however, when he set out five criteria by which theories may be appraised, referring to the following characteristics: accuracy, consistency, breadth of scope, simplicity and fruitfulness … Although he provided no rational justification for these criteria, the fact that they were put forward as something transcending individual paradigms appears to weaken the incommensurability of paradigms and at the same time opens the door to the *development* of a rationale for universal criteria.’
27. Thus, he suggests that the Copernican was for everyone but the discovery of oxygen was for chemists and not for mathematical astronomers.
28. Kunin and Weaver (1971) advise of dual difficulties – the adequacy of Kuhn for science together with its mechanical application to economics.
29. But note that Toulmin (1972) questions whether revolutionary science is based on a conceptual rupture between incompatible paradigms rather than a cumulative and gradual process of debate. Referring to the Newton/Einstein transition, he argues that the physicists who lived through the period from 1890 to 1930 were unaware of a breakdown in communication, even over such an extended time. The same applies for a longer period for the Copernican changeover.
30. Hence the incompleteness of Fischer’s (1993) account, following Zupan (1991), in explaining the persistence of general equilibrium because of its serving as heuristic device, theoretical norm and system of logic. These are presumed to interact with personal commitment, itself explained by role of start-up costs, free-rider problems in view of paradigm as public good, and network externalities.
31. For the latter, in the context of economics, see Chalk (1967).
32. Some have argued that Kuhn needs to be interpreted as a dialectic, with normal science as thesis, anomalies as antithesis, and new paradigm as synthesis. See Karsten (1973) and Chase (1983), and Kunin and Weaver (1971) and Khalil (1987) for the dialectic in the broader context of external circumstances, the socio-psychological evolution of intellectual communities, and so on.
33. For a fuller account in the context of labour markets, see Fine (1998a, Chapter 2).
34. See Carrier and Miller (eds) (1998).
35. See Rosenbaum (1999) for a critique of neoclassical theory for its neglect of culture in its understanding of preferences, although this is itself limited by him to interdependency of preference.
36. Post-Fordism represents a minor exception. Further see Amariglio and Ruccio (1998, p. 237): ‘If postmodernism as critique has exhausted itself in cultural and literary circles, this result stands in sharp contrast to the situation within contemporary economics. The destabilizing effects of postmodernism are only beginning to be noticed in the area of economics, and the resistance of philosophers and historians of economic thought to the critical currents of postmodern theory is precisely because they have understood (correctly, we think) the mostly nihilistic implications of adopting epistemologically ‘relativist’ antiscientific stances.’ Note that the authors erroneously credit current heterodoxy within economics as a delayed response to postmodernism. In contrast, its influence remains negligible and most dissent against the orthodoxy predates postmodernism and is more readily ignored today.
37. See Fine and Rose (2001) for fuller discussion.
38. See also (pp. 180–1), ‘The Modigliani–Miller theorem, for instance, relies on an arbitrage argument to prove its point … Modigliani and Miller rely on “perfect capital markets”.’
39. Strangely, although Harrison remarks that the new financial economics has been put to practical use, not least in the Black–Scholes formula, he does not raise the issue of whether the disproportionate growth and change of financial markets themselves has had an effect on attaching finance to economics as academic disciplines. It is also worth noting that, although he does not mention Kuhn, the new finance as a research programme is raised (p. 183): ‘The ongoing defense of the EMH [efficient market hypothesis] corresponds closely to Lakatos’s description of the protection of the background presumptions that make up the unquestioned “hard core” of what he calls a “scientific research program”.’

40. For a critique of the new financial economics, see Fine (1997b) and Aybar and Lapavitsas (2001). For a fully referenced contribution from sociology, viewing the financial system from a network perspective, see Uzzi (1999).
41. The idea that the power of finance has held back domestic industry, originating with Anderson (1964). See also Fine and Harris (1985, Chapters 1 and 4) and Ingham (1984).
42. Further, for Crafts (1999c), whilst Geschenkron 'can be construed in terms of modern microeconomics … [this] does not mean that his underlying view of the role of the state in the development process is acceptable', because of his neglect of sources of total factor productivity and the dangers of government as opposed to market failure. For Crafts as economics imperialist, shifting from economic history to development studies, see Crafts (1999a and b).
43. Indicative is the set of papers given at the AEA meetings in December, 1984, organized to deal with the issue, 'Economic history: a necessary though not sufficient condition for an economist'. Kindleberger (1986, p. 83) describes it as 'one of the most enthusiastically received sessions on the program', but expresses concern that the technicalities attached to economics will squeeze out 'a true contact with the facts' (p. 90).
44. See Fine (2000b), and also Fine and Milonakis (2000), for a critique of what is termed 'the newer economic history'.
45. See also Lamoreaux et al. (1999, pp. 14–15): 'More than any other factor, the ability to collect and use information effectively determines whether firms, industry, groups, and even nations will succeed or fail.'
46. This is marked in the work and influence of David Harvey (1982, 1985 and 1989), for example. See also Lee and Wills (eds) (1997).
47. A further telling critique, of general applicability once mainstream and much other economics confronts the international, is the impoverished notion of what constitutes the national and the nation-state.
48. Compare, though, with the later assessment of Schmutzler (1999, p. 374), 'Finally, of course, the new economic geography literature has one great shortcoming: so far, it has hardly generated any policy recommendation'. This is not surprising since it shares this characteristic with the new, endogenous growth theory of which it is more or less a partial replica.
49. Thus, translation is defined as 'the methods by which an actor enrols others' and 'a common form of translation in science is that of problematisation', itself defined as 'an equivalence between two problems that requires those who wish to solve one to accept a proposed solution for the other' (Callon et al. (eds), 1986, p. xvii). But for a critique of Callon's extrapolation from science to the laws of the market, see Fine (2001d).
50. What follows draws directly on the conclusions of Fine (2002 and 2003).

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6. Central bank independence: economic theory, evidence and political legitimacy

James Forder*

1. INTRODUCTION

1.1 Objectives

Although much has been made of the economic theory which is said to show that central bank independence improves economic performance, and perhaps even more of the evidence which is said to support that view, there has been little serious or worthwhile attention to the issue of its relation to democratic values. In particular, it seems that the advocates of independence have failed to appreciate that there are a variety of different ways in which these values might feature in a full assessment of the proposal. As a result, or so this chapter argues, they have prematurely dismissed the claims of democratic control of monetary policy. It is true that some argument for independence which acknowledges these claims might be made, but my objective is to demonstrate that this has not as yet been done. If the correct conclusion is that central bank independence is desirable, more argument is therefore required to reach it.

Whilst it is clear that the advocates of independence have not given much attention to the issue of the democratic legitimacy of their proposals, it is less clear why this is. I suggest the impression that ignoring the issue is a safe strategy has been nurtured by two characteristics of the literature. The first is that various illusions combine in many arguments for independence. Some simply concern the proper role of democracy, which is often, apparently, presumed to be much more limited than political philosophers have tended to suppose. Others concern economic evidence, where studies are alleged to support hypotheses they do not, and in one or two cases, even ones they contradict. And yet others concern the significance of particular pieces of economic theory, where it is often supposed that arguments demonstrate rather more than they do. By a combination of these things it has come about, I suggest, that the room for doubt about the democratic acceptability of central bank independence has seemed to be very small, or even negligible.

The second confusing characteristic of the literature is that there are a number of different arguments for central bank independence, which are clearly distinguished only rarely. Indeed, the various proposals going by the description ‘central bank independence’ often differ, not just in their details, but in what their authors regard as their essential characteristics. This proliferation alone, even without the analytic illusions, might be sufficient to create the impression that the advocates of independence have, between them, an answer to every challenge. Whether one questions the theory, evidence, or even the democratic legitimacy of ‘independence’, one or other proposal seems to meet the point. The real question, of course, should be whether there is a single, consistent statement which answers all the relevant challenges.

One objective of this chapter is therefore simply to enunciate, without any claim to originality, some of the values that have been felt to be served by democracy. Another is to dispel some of the illusions which appear to lie behind so much support for independence, and to distinguish the various arguments that have been advanced in its support. When these things are done, I suggest, it is apparent that no complete statement of the case for independence has been made which is rationalized in economic theory, supported by evidence, and which responds to the serious concerns about democracy that should have been raised in assessing this proposal. In doing this, I hope to encourage the advocates of central bank independence to recognize the incompleteness of the argument as it stands, and to reconsider the position.

1.2 Arguments for independence

Whilst one cannot point to a single argument for central bank independence, more or less accepted by all its advocates, it is possible to identify certain recurring themes. First, it should be apparent that although central bank independence clearly involves some kind of compromise of democracy, its advocates do not tend to admit to a general distaste for that system.[1] The case being made, therefore, is at least ostensibly one which relates specifically to monetary policy. One aspect of all the arguments, or at least all those with which I am concerned, is that the advocate is assuming the neutrality of money, and expects and intends that independence will result in low inflation.[2] Amongst these, many rely heavily on studies which have reported a relationship between independence and low inflation. Indeed occasionally this relationship seems to be the whole case. More often, the report of this statistical relationship is linked to the assertion of the existence of an equilibrium or ‘natural’ rate of unemployment which is unaffected by monetary policy. The precise significance of this claim is not always made clear. Sometimes, apparently, it is supposed that this confirms that inflation is the only thing that might be affected by the status of the central bank, and therefore a relationship between low inflation and independence is sufficient data by which to judge the proposal. Arguments for independence based on the alleged relationship between it and inflation, supported by this view of the natural rate of unemployment are considered in section 2.

On other occasions, the implication is that the existence of a natural rate of unemployment is sufficient to demonstrate that there are no normative issues to be faced by monetary policymakers. This, it is implied, or sometimes stated, means that there is no role for democratic decision-making in setting monetary policy. The validity of these deductions will be considered in section 3.

Sections 2 and 3 share a concern with the issue of the relevance of normative questions to the case for central bank independence, but the points made are distinct. In section 2 it is argued that it is a mistake to assume without argument that there is no normative value arising directly from a democratic system of government, as distinct from the decisions it takes. On the other hand, one of the objectives of section 3 is to respond to a particular position apparently taken by the advocates of independence. Their suggestion appears to be that in the special case of monetary policy, there are no normative decisions for policymakers to take, and that therefore, it is appropriate to remove control from the democratic realm. The argument of section 2 already suggests that this is a non sequitur. But in section 3 I also seek to argue that in any case there are normative issues in monetary policy, even on the theory adopted by the advocates of independence, and certainly on other theories. From sections 2 and 3 together, then, it follows that the argument of the advocates of independence, as it stands, is both based on a false premise – that monetary policy involves no normative decisions – and on an invalid inference – that this entails that there is no role for democracy. A variation of the case for independence, which might seem to be a response to these points, is to argue that democratic control actually results in poor policy. This again seems to suggest that this particular policy area might properly be removed from democratic control. Much the most prominent version of this idea, although not the only one I consider, is the claim that unelected policymakers are more 'credible' and that this credibility in and of itself improves policy outcomes. In this area, which is the subject of section 4, I believe confusions about economic analysis are most widespread. These concern issues of exactly what is implied by theory, and what is assumed, as well as mistakes about which ideas are supported by evidence. These aside, however, there is again the issue of whether the desirability of independence follows from the failings of democracy that are alleged. Again, I argue that there is plenty of democratic theory which argues that it does not, and again, these are ideas that have been almost completely ignored by the advocates of independence.

Finally, there are versions of the independence proposal which appear to be attuned to concerns about democratic legitimacy. It is argued, for example, that certain proposals can avoid the danger of being inconsistent with democratic government by instituting some form of limit or safeguard on the central bank's independence. Although some of these proposals may have their merits, I shall argue in section 5 that those which can properly be understood as avoiding serious concerns about democracy are also proposals for arrangements that would not be called 'independence' in the rest of the literature. As such, it is incorrect to claim the support of that literature – whether theoretical or empirical – for such ideas. They may not conflict with democratic values, but on the other hand, whether they have any advantages is purely a matter of speculation, and the case for them is certainly not made merely be adopting the label 'independent central bank'.

Amongst all these arguments, there is no denying that many of the components of a case for independence might be found, and it could certainly be asserted that some composition of them, with only a few omissions corrected, is what is 'really meant' by *bien pensant* advocates of independence. In making such a claim, and particularly in correcting the omissions, however, it would be necessary to identify the particular normative positions that were being taken. At that point it would also be possible to specify a case against central bank independence based on the value of democracy, and possible, therefore, to debate this issue.

As things stand, I believe that debate has been cut short because the advocates of independence have managed to convey the impression that their position entails no normative positions worthy of attention. It is this impression that I am most keen to correct.

2. IS BETTER PERFORMANCE SUFFICIENT TO MAKE THE CASE FOR INDEPENDENCE?

As the case for central bank independence is usually made, it depends on a number of studies that have reported that independence, measured according to a reading of central bank statutes, is associated with low inflation.[3] In many presentations of the case, it is also asserted that there exists an equilibrium rate of unemployment and it is suggested that this argues that evidence showing that independence is related to low inflation is sufficient to show that it promotes good economic performance.[4] Even if it is accepted, as is certainly intended, that the evidence shows that economic performance is improved by central bank independence, this still leaves the case for it incomplete. That is because no mention has been made of the value of democracy.[5]

There seem to be two possible explanations of this omission. One is that it is being assumed that tests of statistical significance demonstrate the normative importance of the proposal. Such an error might seem improbable, but the failure of the advocates of independence to discuss the normative importance of the results seems to support this view. It is as if the test of statistical significance is determining whether the size of the effect is large enough to call for other sacrifices. This is a mistake – determining whether sacrifices are called for requires an argument about the (normative) importance of an effect of that size, whereas the test of statistical significance merely reveals whether it is likely that the result is the artefact of an atypical sample of cases having been considered. Even a very small effect will be statistically significant if the sample size is large enough, but a small effect would not necessarily induce us to incur any costs. Although elementary, such errors appear to be fairly widespread in the economics literature: McCloskey and Ziliak (1996) catalogue numerous examples, and McCloskey (1985, p. 201), concluded that roughly 'three-quarters of the contributions to the American Economic Review misuse the test of statistical significance' in this kind of way. It can hardly, therefore, be altogether implausible that some of the advocates of independence have made the same mistake.

The second possibility is that it is being assumed that the value of democracy arises solely in its tendency to produce good policy. In that case, if it is established that it leads to bad policy, at least in a particular area, no further argument would be needed. One issue is clearly that of whether democratic control of monetary policy does lead to bad policy, and that is addressed in section 3. However, there is a further issue. Although this view – that a form of government is valuable or otherwise only because of the quality of the decisions it tends to deliver – might appeal to some,[6] what has perhaps not been clearly perceived is that this view is itself a normative judgement which requires an argument in its support. Furthermore, it is far from being a common belief amongst theorists of democracy that promoting good decisions is its only role.

The idea that active participation in government is essential to the good life, and that democracy is therefore necessary to a civilized state has been a recurring theme of the republican tradition since Aristotle.[7] The idea was notably restated by Rousseau (1762 [1997]), but Marsilius of Padua has been credited by Plamenatz (1963, ch. 1) with a striking articulation of it in 1324. Amongst recent advocates of this thoroughgoing pro-democracy view is Dahl (1956) who remained largely unrepentant in Dahl (1998).

A similar view, but emphasizing the opportunity to participate as the benefit to the individual rather than treating the obligation to do so as a determining feature of constitutional design, can be found in many other writers. De Tocqueville (1835 [1969 pp. 243–4]) went so far as to assert that 'democracy does not provide a people with the most skilful of governments', but to advocate it nonetheless for its other beneficial effects. Wollstonecraft (1792 [1985, p. 258]) thought that being prevented from taking a full role as citizens 'necessarily degrades' women, and the same would presumably be true of men when they are so prevented. Even J.S. Mill (1861 [1993, p. 210]), the great advocate of representative government, said that one of the criteria by which constitutions should be assessed is, 'The degree in which they promote the general mental advancement of the community', which he expected to be enhanced through participation in the political process.

Moving away from participation, Held (1996, p. 310) suggests that democracy's value is that it can give substance to the principle that individuals should be free and equal in the determination of the conditions of their own lives. And Weale (1999, p. 211) proposes that it be valued because it enables 'citizens to attend to their common interests, and recognise themselves as both fallible and the political equals of all other members of the society'. In either case, in so far as the emphasis is on the freedom, the equality and the fallibility, this is a view based on the nature of the good society, not a narrow view of the efficacy of the processes adopted.[8]

A view which might be complementary with any or all of these, or might be an alternative, is that democracy makes government more effective simply by making its decisions more legitimate in the eyes of those subject to them, or by increasing the enthusiasm of the people for national undertakings. This idea forms much of the basis of the particularly well articulated concerns of Berman and McNamara (1999) about the absence of accountability of the European Central Bank. It has also been explicitly adopted by Levi (1999), and underlies the doctrine of 'no taxation without representation' and even Pericles' vision of the Athenians at war.[9] One supposes that attitudes to the form of government – in most cases ones favourable to some conception of democracy – have been a motive force amongst generations of freedom fighters, revolutionaries, patriots and the occasional peacekeeper ever since.

However great or small the merits of these arguments, they clearly show that democracy is valued for more than delivering ideal policy. Therefore, the case for independence is not made simply by the claim that it improves economic outcomes. More argument is needed, and the consequence of this is that whatever else may be, influential claims like that of Schaling (1995, p. 226) that the achievement of low inflation combined with the 'absence of a long run trade off between inflation and growth implies that the establishment of central bank independence is a free lunch' are, unless some further, unstated, argument is to be understood, false.[10]

3. THE NATURAL RATE OF UNEMPLOYMENT

In other presentations of the case for independence, a greater role is accorded to the idea of the natural rate of unemployment. This theory holds that monetary policy has no persisting effects on employment, which is therefore unaffected by the time-path of demand.[11] Then, if it is the case that there is little or no dispute about the desirability of inflation control, the suggestion, often left implicit, seems to be that this reduces the issue to a technical one raising no normative questions.[12]

Blinder (1997) is unusually explicit amongst the advocates of independence in making the case in terms of the absence of normative issues. He specifically draws attention to the fact that the details of tax policy are no less complex than the operation of monetary policy, but argues that they are properly kept under Congressional control because they have significant distributive effects. Monetary policy, on the other hand, he says, lacks these effects, and therefore the fact that it is difficult argues for the removal of direct control of it from politicians.

Although the claim that monetary policy involves only technical matters does not acknowledge the view that democracy has intrinsic value, it also suffers other, perhaps more important internal weaknesses. First, there is doubt as to the value of the natural rate theory itself. Secondly even if it is the case that monetary policy has no lasting effect on employment, it does not follow that it has no temporary effect that should be the concern of policy. Thirdly, it is erroneous to deduce from the non-existence of monetary effects on employment that monetary policy has no effects on any policy objective other than inflation.

3.1 Is there a natural rate of unemployment?

If a case against central bank independence were to be built on a denial of the existence of a natural rate of unemployment, it would in all probability attract only minority support since there is no doubt that some version of that theory is widely accepted. However, it might be noted that the proposition is not beyond doubt, and Arestis and Sawyer (1997), for example, criticize the arrangements for the European Central Bank, and by implication those for all similar independent central banks, specifically on the basis that there is no such equilibrium rate of unemployment, and monetary policy therefore needs to take account of a wider set of objectives, such as employment. Similarly, Cornwall and Cornwall (1998) draw attention to logical inconsistencies in this part of the theory supporting independence. If the view of these authors were accepted it would clearly not be possible to avoid discussion of the role of democracy in monetary policy on the basis that it involves no value judgements, and therefore the case for central bank independence as it is currently made would fail. Perhaps the thought that has received too little attention, however, is the one voiced by Goodhart (1992) in precisely this context, that economic theory is so subject to change, that a long-term commitment to a certain approach to policy is a dangerous thing.[13]

3.2 Should monetary policy ever target employment anyway?

Even in natural rate models the case for exclusive attention on the control of inflation can be criticized on a number of grounds. One that has attracted attention is that such a target can conflict with optimal adjustment to disturbances. In the presence of an adverse supply shock, such as a sharp rise in the price of oil, which causes both inflation and unemployment to rise, policy-makers must decide to what extent to seek a quick return to equilibrium employment. An eventual return may be guaranteed by the existence of a natural rate but this does not mean policy cannot usefully speed the process. In such circumstances, adherence to the goal of inflation control requires central banks to hinder adjustment since they would be required to act to reduce inflation, thereby increasing unemployment further. It seems most unlikely that this would be good policy.[14] To argue from the non-existence of a long-run trade off between inflation and unemployment to the general priority of inflation control is therefore a non sequitur.

It is readily argued that in such circumstances an independent central bank would not in fact seek to eliminate inflation immediately, but rather, it would accept a more gradual adjustment and thereby also give due attention to the control of unemployment.[15] Whilst it is certainly to be hoped that such an attitude would be taken, it is clear that the view that it should be abandons the claim that the control of inflation is the only reasonable objective of monetary policy. However, perhaps the more important point in the context of the present argument is that it is difficult to see that the determination of whether policy should seek to stabilize employment involves no normative issue. It is quite clear that it does. Therefore, if it is being presumed that the ease of abandoning an inflation target means that the possibility of supply shocks does not count against the technical advantages of central bank independence, it cannot also be argued that operation of policy involves no normative issues.[16] In that case, the lack of normative issues cannot be used to finesse the issue of democratic accountability, although the combination of incompatible responses being advanced to compatible objections to independence is all too common.

Even in the absence of significant supply shocks, the possibility that there might be a trade off between inflation and unemployment in the short run leads to the issue of how it is determined that these should never be exploited in seeking to move unemployment below its natural rate. As Galbraith (1997) has pointed out, the ‘short term’ gains that are available are much greater than one might suppose from the speed with which the consideration is often dismissed. He noted the significance of the estimates of Gordon (1997) that holding unemployment 1 per cent below the NAIRU for a year results only in an increase in inflation of 0.3 per cent. He suggests that the magnitude of the ‘short term’ gains could therefore be well worth the cost. On the basis of this argument, it can hardly be irrational to wonder whether the control of inflation should be the policy priority. Once again resolution of the issue would seem to involve a normative argument, thereby breaking the link between the existence of a natural rate and monetary decisions being purely technical.

A related point was made by Stiglitz (1998), in a critique of central bank independence giving some attention to the issue of the value of democracy. He observed, like Galbraith, that even if there is a natural rate of unemployment, it is unknown what that rate is. In that case, wise policy might be ‘cautious expansionism’ which aims to test the limits of growth even at some danger of increasing inflation. Whether this is good policy might be debated, but again we have a natural rate of unemployment without any indubitably optimal policy and hence there is not even the semblance of an easy escape from considering the issue of the value of democracy.

3.3 Is there anything else monetary policy should target?

Leaving aside all these points, however, there is a further striking non sequitur in the argument of the advocates of independence. The absence of a trade off between inflation and unemployment, if it could be established, would not entail that there are no trade offs between inflation and other policy objectives.[17] Monetary policy affects a range of variables which it is at least arguable should be the concern of policymakers.

One important objective is that of financial sector stability. If the monetary authorities are to perform the role of lender of last resort, this may sometimes compromise their ability to control the money supply or interest rates, and therefore the price level. To target price stability if that was in danger of bringing financial collapse would, as Bain, Arestis and Howells (1996, p. 234) say, be a very narrow vision even of monetary stability. It would certainly not be good policy.

A related issue that has received some attention, although generally not in the context of central bank independence, is that of fiscal sustainability. Sargent and Wallace (1981) showed that under certain conditions, the assumption that a formal government default will not be permitted means that the maintenance of a low rate of inflation in the short run means there will be a high rate of inflation later. One could equally treat the model as showing the existence of a trade off between low inflation and government solvency. In either case it is apparent that the view that there is no trade off between current inflation and other variables is incorrect.[18]

Devising other such trade offs is really only a matter of imagination. For example, American monetary policy, combined perhaps with other factors, resulted in a large appreciation of the dollar between 1980 and 1985 and a consequent loss of competitiveness of the American tradable sector.[19] One result was an increase in the lobbying of Congress for a more protectionist stance of trade policy, and this lobbying was at least a contributory factor in the passing of the 1988 Omnibus Trade and Competitiveness Act which, on certain understandings, is a move in a protectionist direction.[20] It follows that, at least to some extent, and in certain circumstances, there is a trade off between inflation and free trade.[21]

Another example might be that in 1992 and 1993, the Bundesbank faced a choice between control of German inflation and the maintenance of European exchange rate stability.[22] Again the existence of a trade off is clear. The reasons that this problem arose are not fundamental here, so that, for example, the claim that the German government could have solved the problem by financing German unification through tax increases is not relevant. That simply points to a trade off between the level of taxation, inflation and exchange rate stability.

Perhaps the area where normative issues in the content of policy arise most clearly is in the distribution of income. The existence of a natural rate of unemployment does not imply that there are no distributive consequences of inflation.[23] Consequently, one must take seriously the possibility raised by Nordhaus (1973), that moderate rates of inflation are associated with an increase in the relative income of the poorest. Similarly, Blinder (1987) argues that monetary contraction damages the relative position of the poor.[24] Related concerns motivate much of the argument of Kulkarni (1999).[25] There is also the possibility that distributive consequences of policy could be regional, and as noted by Verdun (1998), this might raise particularly severe concerns about democratic legitimacy in the European Monetary Union.

One might perhaps hope for a modified independence where the central bank is not expected to target price stability exclusively, but rather to follow some other, more sophisticated, rule. The design of such a rule is, however, all but impossible. The circumstances of events like possible financial collapse, government default, sharply increased protectionist pressures, and German unification are unusual, if not unique, and an unavoidable element of the political, bringing uncertainty with it, is present in them all. One would need to know, for example, how susceptible are legislators to protectionist pressure; to what extent will foreign policymakers take action which facilitates or impedes the maintenance of exchange rate stability; on what terms will loans from international organizations be forthcoming in the circumstance of imminent default? To imagine that ideal policy will be the outcome of any particular institutional structure in circumstances like these is optimistic, but to imagine that even good policy can be determined by a rule in advance of knowing what the conditions are is much more problematic still. This is the basic case, of course, for discretionary policy following the line of thinking of Bagehot (1873) and Sayers (1957). Difficult as it is to know how to construct institutions for reasonable policy, the supposition that even acceptable policy will always be achieved by aiming exclusively at the maintenance of price stability verges on the absurd.

All in all it would seem that the idea of the natural rate of unemployment is inadequate to the task of making the case for independence. If the natural rate exists, which perhaps it does not, that does not imply that unemployment should be ignored by monetary policymakers, and the balance between the control of inflation and of unemployment inevitably involves difficult issues. Those aside, there are many trade offs between inflation and other reasonable or essential objectives, again including fairly long-lasting effects on employment, but also extending to many other areas. It is legerdemain, then, to argue that the existence of a natural rate of unemployment relegates monetary policy to the domain of the 'purely technical'.

Whilst it can hardly be argued in any of these cases that reaching a decision as to the appropriate policy is a purely technical matter, it clearly does not follow that no case could be made for independence. It is even possible that some social or moral objective, or some historical imperative might demand that monetary policy serve some particular end, and that this could only be secured by the limitation of democracy. Indeed, precedents for this line of argument might well be found. Although the advocates of independence have tended to imply that normative issues should be democratically resolved, the opposite view has also been held. For example, Macpherson (1977) argues that it was only when Bentham and James Mill came to believe that the poor would, out of self interest, refrain from voting for redistribution that they became democrats, giving up the presumptions of Madison, Hamilton and Jay (1788 [1987], especially no X) amongst many others, that there was a danger of a 'tyranny of the majority'. J.S. Mill, on the other hand, being less sure about the likely effects of democracy on distribution was led to advocate a system which would have given the rich more votes than the poor. Interestingly enough, the opposite has also been claimed – that democracy is a failure since it does so little for the poor.[26] It is clear, however, that any such argument in support of independence must certainly go well beyond anything that the advocates of independence have argued to date.

4. DYSFUNCTIONAL DEMOCRACY

Although many arguments can be advanced to the effect that democracy is a desirable form of government, there have also been many advocates of the contrary view, with Plato's vitriolic to the effect that it promoted flatterers, vagabonds and rogues, all seeking public support but doing nothing for the public benefit, one that has a great resonance with many.[27] One might adopt this point of view to make a general case against democracy, on which basis the argument for non-democratic control of monetary policy would not need to be made separately, but the advocates of independence show little sign of wishing to take this route. Rather, they seek to argue that in the area of monetary policy, democracy brings some special danger.

There are broadly three theoretical approaches to this issue which are advanced as making a case for central bank independence.[28] One of these, the traditional political business cycle argument, holds that it is attempts to win elections that cause policymakers to pursue undesirable, and ultimately inflationary, policy. Another – the theory of the 'rational political business cycle' – suggests that the possibility of changes in government at elections introduces an unpredictability into policy which prevents the private sector from optimizing. And a third version suggests that the credibility of policy is an important determinant of its effectiveness, and that policy set by unelected policymakers is more credible than that set by elected ones.

4.1 Arguments that democracy is dysfunctional

The political business cycle

The sense of Plato's comparison between government and the steering of a ship,[29] for which one would clearly prefer a captain to an assembly, is perhaps most closely captured in a modern interpretation of monetary policy by Nordhaus' (1975) theory of the political business cycle. His idea was that if rapid growth is believed by voters to be the outcome of good management, there is likely to be an electoral incentive for what is in fact excessively inflationary policy just before elections. The inference is sometimes drawn that this problem can be alleviated by removing monetary policy from democratic control.

But a near correspondence with a metaphor of Plato is not evidence.[30] And whilst it is true that there have been election periods in most countries where policy seems to have been too loose, to regard this as making the case is to treat the anecdotal as conclusive. It should be recognized that policymaking is imprecise so that there are almost bound to be some such cases, and there have certainly been cases where policy has been too tight at election time.[31] Secondly, some of these cases have occurred in countries with independent central banks.[32] That must damage any faith one may have had in the view that, even if the problem exists, independence solves it.

To date, there has been a striking failure on the part of the advocates of independence to confront the need to match this theory with evidence. None of the major studies of the effects of independence attempts to test the hypothesis of the political business cycle. They are all content with some version of the claim that independence is associated with lower inflation on average. Similarly, although they do not draw attention to this limitation of the case for independence, in their well known and generally highly regarded survey of the independence literature, Eijffinger and de Haan (1996) do not discuss any case of a study of specifically the political business cycle.

Other studies that focus on the political business cycle sometimes mention the issue of central bank independence. Nordhaus himself noted the possibility that independence might reduce the problem. But he also noted, perhaps with rather more conviction, that the political business cycle seemed to be least pronounced in those countries with the most sophisticated national planning, and most pronounced in those without it. The latter group included Germany and the United States, both countries which central banks usually regarded as independent. Alesina and Roubini (1992), in a study of 18 countries found evidence supportive of the political business cycles of the Nordhaus kind in only two, and therefore dismissed it. Hadri, Lockwood and Maloney (1998) did not find convincing evidence and Alt and Chrystal (1983) went as far as to say ‘no one can read the political business cycle literature without being struck by the lack of supporting evidence’.[33] Keech (1995) does not focus narrowly on the political business cycle, but similarly concludes that democracy does not damage macroeconomic policy.

Therefore, alluring as many find Plato’s depiction, as things stand the evidence does not say that it is a good characterization of monetary policymaking. So if the case for independence is to depend on a specific failing of democracy in the form of the political business cycle, it has been advanced by sleight of hand: such evidence as has been presented is inappropriate to that case.[34]

Rational political business cycles

A variation on the idea of the political business cycle is that of the ‘rational political business cycle’. Alesina, Roubini and Cohen (1997) suggest that cycles in output might be caused by private agents’ rational response to uncertainty as to the composition of future governments and hence as to the orientation of policy.[35] Clearly, if central bank independence prevents the make-up of a government affecting policy, it would eliminate this uncertainty and hence the associated cycle. Furthermore, they report that they do find evidence for the existence of rational political business cycles, so here it would seem there may be a case that central bank independence would improve economic performance.

Their advocacy of independence retains a peculiar air, however. It is true that the model argues that democracy brings a cost with no economic benefit. But the behaviour which generates the cost is entirely lacking in a rationale. In the model one party has a greater desire than the other to reduce unemployment, but the assumed structure of the economy means this can manifest itself only as a higher rate of inflation.[36] Thus, fundamentally, the electorate are choosing rates of inflation. The difficulty is that no explanation is offered as to why parties favouring different rates of inflation continue to exist when voters understand that inflation brings no benefits. The parties are in effect being exogenously given policies which do not make sense in the context of the model, whereas one would have expected the members of the pro-inflation party, recognizing that it brings no benefit, to change the policy.[37]

One could develop the model to give different parties different preferences over some policy other than monetary policy. That would explain voters' change of political preference, but it would be no advance since it would not explain why such parties would not adopt a common (optimal) monetary policy. Alternatively, the model could be respecified to allow inflation to bring some benefit, but then the case for independence would evidently evaporate.

Therefore, although rational political business cycles, if in fact they exist, might mean there is a benefit in central bank independence, they certainly do not show that there would be no cost since they do not take seriously the issue of why the parties differ. If this model is relevant to the case for independence, then, it would seem to depend on a prior view that democracy is undesirable rather than being a way of advancing that claim.

Credibility

The theory of policy credibility seems to many to offer a better case. It suggests, or seems to suggest, that it is a special characteristic of monetary policy that its effectiveness is determined by the extent to which it is 'credible', and that credibility is enhanced by policymaking which is not democratically controlled. This again seems to suggest that the argument for the limitation of democratic control applies specifically to monetary policy, and not to other areas. Important as this argument seems to have been, I believe that a number of mistakes are involved, each attributable to a lack of clarity about exactly what the theory assumes and what it demonstrates.[38]

Concerns with credibility originate in theoretical developments following from Kydland and Prescott (1977). At that time, monetarists were arguing that the control of inflation was both technically easy and painless, but this made it difficult to explain the failure of policymakers to adopt their proposals. Kydland and Prescott's idea of the 'time-inconsistency' problem offered a way of explaining inflation without depending on non-monetarist explanations or any kind of social strife, perhaps in the form of a failure to reach consensus on the profit share, that would make it impossible to reduce inflation without causing recession. Equally, it was unnecessary to suppose that policymakers were making an elementary mistake in failing to control the money supply. Instead, it was said that inflation remained high because policy was time-inconsistent. The solution was, according to Kydland and Prescott, easy and painless after all – it was simply to adopt a monetary rule. Subsequently, Barro and Gordon (1983a and b) focused on the suggestion that the private sector might not believe the policymaker's commitment to the rule,[39] and that it was therefore necessary to develop its 'credibility'. Central bank independence, it is widely claimed, offers such credibility.

Considerable caution is required in the interpretation of the theoretical idea of credibility. The original goal – Kydland and Prescott's problematique – was, it should be remembered, to demonstrate the possibility of equilibrium inflation in a monetarist world without mistakes or social conflict. To this end they assumed that all economic agents, including the government, had common preferences between inflation and unemployment. This makes it impossible to attribute inflation to social strife. They also assumed that all agents, again including the government, understood the structure of the economy. This made it impossible to attribute inflation to straightforward policy error. This did indeed allow them to demonstrate the possibility of equilibrium inflation in such an economy. But they only demonstrated a possibility. They did not show that in fact this is the correct explanation of inflation, and nor that their assumptions are true. Nor, as far as one can tell, have these things since been shown.

Further difficulties in the case for independence begin to arise as soon as these models are interpreted carefully. In Barro and Gordon's analysis, the assumption of common preferences gave the policymaker's credibility the character of a public good – on the assumptions made, everyone benefits from improved credibility. But there was no argument that preferences in fact are common. If some agents stand to gain from inflation the circumstances are different: some policy frameworks may be more credible than others, but there would no longer be a presumption that more credible policy was socially preferable. Nevertheless, it appears that, presumably through failure to think through the issue of what was assumed and what was demonstrated, the line of argument derived from Barro and Gordon has created the impression that the gain in terms of the (supposedly) public good of credibility outweighs the loss in terms of democratic values.[40]

A second theoretical illusion in the area is that independence itself will in fact generate credibility. Treated straightforwardly, this is a mistake. The whole of Kydland and Prescott's discussion – and indeed that of Barro and Gordon – concerned 'the policymaker'. Kydland and Prescott were surely thinking of the Federal Reserve, but in any case no issues about political objectives, elections, or indeed – again because of the common preferences – sectional advantage, arise.[41] Their intention clearly was that 'the policymaker' is 'independent'. The point of the model was to explain equilibrium inflation without appealing to any of these kinds of policymaking dysfunction. Therefore the credibility problem is a problem of an independent policymaker, and so cannot possibly be solved by making a central bank 'independent'.[42]

Furthermore, although Kydland and Prescott considered a policymaker whose objectives, like those of society, related only to inflation and unemployment, if one were going to speculate on the consequences of the policymaker having a separate electoral incentive, it could hardly be doubted that people will vote for a credible policymaker, since credibility results in better outcomes. But in that case, the electoral incentives lie in maintaining credibility, and that means low inflation. An unelected policymaker, on the other hand, would lack this extra incentive to maintain credibility.[43]

In the light of these difficulties, it is perhaps no surprise that empirical work appears to contradict the view that independence improves credibility. Posen (1998), who offers the fullest and most direct test of the hypothesis, was unable to find evidence of greater independence being associated with lower sacrifice ratios in periods of disinflation. The contrast between this result and the claim that independence is on average associated with lower inflation is another clear example of the most appropriate evidence being damaging to the case for independence, but other, more supportive data being emphasized in its advocacy.

4.2 The idea of protective democracy

Arguments that democracy promotes poor monetary policy seem, then, to be less well grounded than might have been guessed from the enthusiasm with which proposals for central bank independence have been greeted. Of the three likely arguments, the case concerned with credibility seems to misconstrue the argument; that related to the rational political business cycle to succeed only by assuming policy disagreement continues to exist when it is known to all that different policies all have the same effect, and in the case of the political business cycle, although the theory serves the intended role,[44] evidence seems to be inadequate.

On the other hand, any of these arguments can at most only offer the beginning of a case for central bank independence. Each of them seeks to base that case on the deficiencies – real or imagined – of democracy without consideration of the deficiencies of any other system. In particular, the assumption motivating the political business cycle – that elected policymakers are self-serving – stands in marked contrast to the independence advocates' disregard of the possibility that non-elected policymakers may share that characteristic.

A study which was, for a time, widely noted is that of Chant and Acheson (1973). They observed that a central bank might be treated like any other bureaucracy as having objectives of its own, such as maximizing its power, prestige or budget. Furthermore, they identified a variety of patterns of behaviour of central banks which supported this view. Much interest once also surrounded the claims made by Pierce (1978), Kane (1980), and Friedman (1982) that in the 1970s the Federal Reserve both permitted inflation because it served its interests, and misled Congress over the details of policy in order to avoid censure. The idea that central banks might have their own objectives has, however, almost ceased to feature in discussion of their appropriate role, and certainly the leading advocates of independence do not seem to have responded to these concerns at all.[45] An exceptional case is that of Fischer (1995, p. 201), who notes that there have been occasions when central banks have 'suffered from deflationary bias' but gives little indication of thinking this an important concern at present.

A point of view which has some relation to Chant and Acheson's is offered by Posen (1993) and (1995). He suggests that consistent counter-inflationary policy is maintained only where the financial sector has the political power to protect the central bank from other interest groups. In this way, he is able to explain both independence and low inflation with a measure of financial sector power. But it is also evident from this view that independent central banks are construed as serving the interests of their clients in a certain section of society. If that is the case, then there is clearly an important issue about the democratic legitimacy of the arrangements. Again, it is difficult to see where the advocates of independence have responded to such a concern.[46]

Furthermore – and perhaps most damagingly for the case for independence – although the Bundesbank is often cited as providing a demonstration of the benefits of independence, several studies of policymaking in West Germany have suggested that on occasion the Bundesbank has distorted policy for the purpose of removing from office elected individuals or governments it found uncongenial.[47] These accusations throw into a different light the normative question of who should control policy. To suppose that monetary policy might usefully be insulated from electoral pressures is one thing. To suggest that it be insulated from electoral control whilst still, perhaps, being used to exert influence over electoral outcomes is a different kind of proposal.[48]

Despite these concerns, the advocates of independence seem to have dismissed the possibility of the pursuit of bureaucratic incentives or clientelism in independent central banks. Whatever the grounds for this dismissal may be, they have evidently not felt it necessary to state them.[49]

The concerns about bureaucratic and clientelistic objectives, and the possibility that 'independent' monetary policy might be used for electoral ends all fit a pattern which has led to another distinct source of advocacy of democracy, sometimes known as 'protective democracy', and originating with Locke's (1690) statement of the case – many times since rephrased – that rightful government derives from the consent of the governed. Hume (1777, p. 42), for example, proposed that although not true in fact, it is 'a just political maxim, that every man must be supposed a knave', and that government should be constructed on this basis. Bentham (1843, I, p. 47) says 'A democracy … has for its characteristic object and effect … securing its members against oppression and depredation at the hands of those functionaries which it employs for its defence'. And it is precisely this spirit in which Jefferson (1816 [1999, p. 291]) wrote:

> We think experience has proved it safer, for the mass of individuals composing the society, to reserve to themselves personally the exercise of all rightful powers to which they are competent, and to delegate those to which they are not competent to deputies named, and removable for unfaithful conduct, by themselves immediately.[50]

It is in this spirit that Popper (1944 [1962], pp. 125–7) emphasizes that the crucial problem of government is not selecting the people to rule, but choosing the methods by which such people will be selected. It is easy, as he says, to imagine that a particular failing of policy might be rectified if a different person were in control, but the advocacy of such an appointment does not approach a resolution of the constitutional problem.[51] Schumpeter (1949, chapter 22) clearly shares much with the theorists of protective democracy but of course offers a great deal more as well.[52]

A particularly strong position on the issue of the accountability of executive agents responsible for economic policy was taken by Simons (1936), who proposed, very much in the Jeffersonian spirit, that such control of economic policy is acceptable only when the agency is given a clearly defined target and the instruments to meet it perfectly. Only then could discretion be eliminated, and the requirements of democracy satisfied. Friedman (1967) adopted a similar view, and proposed that the imposition of a monetary target would meet the requirement. Monetarism is clearly out of fashion today, and indeed was not subscribed to by Simons, but the point of Friedman's position, and its genuine concern with political legitimacy might be noted. On the assumptions that appropriate monetary policy is always to pursue a predetermined target, and that the achievement of the target is a purely technical operation on the part of the central bank, there is no objection, say Simons and Friedman, to its being free from detailed democratic control.[53] A similar position was more recently stated by Levy (1995), who concluded, partly because monetary policy is not a simple technical operation of the kind required, that independence does violate democratic values.[54]

In conclusion, then, any attempt to base the case for central bank independence on the tendency for democratic control of monetary policy to lead to poor outcomes would seem to face an uphill battle. Some of the theoretical arguments operate entirely by illusion and are not relevant to the case. More plausible arguments may be available on Plato's line of thinking, but the evidence for political business cycles is, to say the least, patchy, and has certainly not been effectively articulated by the advocates of independence. Furthermore, and perhaps most importantly, the argument based on the deficiencies of democratic politics seems to have assumed that the unelected are perfect. Indeed, in considering the attitude that the advocates of independence must be taking to the character of the central banker, one can hardly fail to recall the judgement of Tawney (1926 [1933], p. 102) on the middle ages, that 'Sceptical as to the existence of unicorns and salamanders, the age of Machiavelli and Henry VIII found food for its credulity in the worship of that rare monster, the God-fearing Prince'.

5. INDEPENDENCE AND ACCOUNTABILITY

A final major aspect of the case for independence is the claim that the details of proposals can be adjusted to ensure the democratic acceptability of independent central banking. Amongst these ideas are included the proposition that democratic legitimacy can be preserved by the way in which independence is granted or the terms on which it is maintained; that the 'autonomy' of central banks delivers the same benefits as 'independence' but is unobjectionable; that if a central bank is given a specific target by an elected body, there can be no objection to its independence in pursuit of it; and the view that a central bank which is independent can nevertheless be held to account for its actions.

5.1 Revocability

It is sometimes alleged that the fact that central bank independence can always be revoked means that there is no loss of democracy in granting it. There are two important responses to this point. One is that to the public choice theorist, the ready availability of means by which the elected government might take effective control of monetary policy, would be almost equivalent to their exercising control, in which case independence would be a dead-letter. Weingast and Moran (1983) argued that the fact that Congress has ultimate control over the Federal Trade Commission causes that 'independent' body to follow closely Congress' desired policy. A similar argument has been made by Grier (1991) about the Federal Reserve. In this case, it would be difficult to argue that there is an immediate and serious problem of democratic legitimacy. On the other hand, nor would there be an argument for the benefits of independence.[55]

On the presumption that these arguments fail and that the fact of independence be established, a second response would be appropriate. That is, that it is a conceptual error to suppose that the democratic reversibility of independence is, from the normative point of view, equivalent to democratic control of policy.[56] Democracy is not maintained by the possibility of restoring it – the elected local government of London was abolished, being replaced with executive control, and was then restored.[57] It is uncontroversial that, whatever else may be the case, in the interim, Londoners were governed less democratically.

5.2 Autonomy

An alternative route to addressing the issue of democratic acceptability is the suggestion that a central bank might, rather than being independent, be autonomous. As an expression intended to convey a particular attitude, this distinction might be useful. So for example, Holtfrerich (1999, p. 349) says that Bundesbank President Karl Klasen preferred the term 'autonomous' to 'independent' because he wanted to indicate his intention to work more cooperatively with the government than the Bundesbank had before his appointment. On the other hand, the distinction might simply be a rhetorical device. When Leigh Pemberton (1993), called for a 'more autonomous central bank within the constitutional arrangements of parliamentary democracy', it is a fair speculation that the reception of Lamont's (1993) call for an 'independent' Bank of England motivated his choice of words. That call, only a week earlier, had met with sharp criticism, amongst others from the Prime Minister, for lacking democratic legitimacy.[58]

Such devices obviously lack any intellectual value. But the fundamental difficulty with such attempts to solve the problem of legitimacy is that it is presumably essential to the argument for independence that the limitation of democratic control of monetary policy is the source of the benefit. Therefore it cannot also be the case that the benefit can be achieved without the limitation of democracy. The attempt would appear to be to imply that an 'independent' central bank would deliver better performance, but perhaps be an offence against democracy, but that an 'autonomous' one can deliver the benefit without the offence. If a clear account can be given of the difference between independent and autonomous, and if it can then be argued that an autonomous central bank would not conflict excessively with democratic values, but would bring some benefit, there would be a case to answer. As the point is presented, however, it is a word game.

5.3 Targets

A version of the proposal for independence supposes that a central bank can be given specific instructions, and its 'independence' would then be limited to the implementation of the policy, with the government retaining the right to change the instructions should it so wish.[59] Such an arrangement has been described by Debelle and Fischer (1994), in terminology widely used thereafter, as 'instrument independence', in contrast to 'goal independence' where the central bank has freedom to choose its own objective.[60] This distinction is often held to be crucial because it is said that there can be no serious issue of democratic legitimacy if a central bank is required to aim for a democratically selected target, which can in addition be changed by the government, without legislation if that is desired.[61]

Taking the view of Simons, Friedman and Levy that only targets with the clear means to achieve them legitimize executive authority, instrument independence would be no more acceptable than goal independence, since the achievement of the inflation target is far from certain.[62] Nevertheless, by lesser standards the case where the elected government can determine the inflation target is less problematic than that where it cannot. But three further issues arise. The first is simply that the insistence of some that the government's right to set a target dissolves the problem of democratic accountability must commit them to the view that, in the absence of that right, a problem exists.[63] This view therefore does not provide for the acceptability of arrangements where the government does not have this right.

Second, there is the issue of what theoretical case can be made for the desirability of instrument independence, and one must be careful to consider the issue of what advantage this arrangement might have over other reasonable candidates.[64] One such would be the government announcing its own inflation target, thereby presumably inviting political cost if it failed to meet it.[65] One response, often given, relates to credibility. But in this case, the idea that credibility can be improved by 'independence' seems particularly weak. The problem of credibility is that of persuading the private sector that policy will certainly not be deflected from its anti-inflationary path, despite the incentives. But if the power to change course is specifically reserved, as it must be for the distinction between instrument and goal independence to have content, this cannot be achieved. The reservation of such power is, within the theory in question, precisely the kind of provision which inhibits the acquisition of credibility.

Third, there are significant empirical difficulties for this proposal. One aspect is that the most frequently cited empirical research is also based on data sets from periods before the current fashion for inflation targets, and so there has been no comparison of the result of instrument independence combined with inflation targets with that of announced inflation targets pursued with the government having power to direct policy. Low rates of inflation prevailing in many countries today might just as well be thought the consequence of the focus there has been on achieving that objective rather than on the institutional design.

Perhaps more importantly, the distinction between ‘goal’ and ‘instrument’ independence is one of kind not degree: it considers independence in two dimensions. The indices of independence, on the other hand, having been constructed before that distinction was drawn, aim to test the view that central banks that can do as they wish will deliver low inflation, and so they measure independence in a single dimension.[66] No consideration has been given to the case of what is now called instrument independence and consequently no systematic evidence of its desirability has been presented. Furthermore, the older measures of independence clearly presume that the government’s right to give the central bank instructions counts heavily against its independence, so that only ‘goal independent’ central banks would be called ‘independent’ at all.[67] To take the studies that have sought to show that central banks that are the most free from government control deliver the best policy, and argue that they support a proposal where an essential characteristic is said to be that the government retains the crucial powers has, rather clearly, more than a slight Orwellian air: ‘Democratic control is independence’.

5.4 ‘Accountability’

Another response to concerns about democracy is that its requirements can be met by making independent central banks ‘accountable’. Central bankers have themselves advocated this point of view. King (1997, p. 440), for example, says ‘an effective system of accountability is essential in order to give legitimacy to an independent central bank’, and goes on to list ways in which the Bank of England is accountable. These are the fact that its decisions are announced immediately and the minutes of meetings are published five weeks later; the Inflation Report allows assessment and scrutiny of their explanations of policy; members of the Monetary Policy Committee appear before a Parliamentary Committee to answer questions; the Monetary Policy Committee is required to send a letter to the Chancellor of the Exchequer if inflation is outside a certain range; and the Court of the Bank is required to report to Parliament each year. King does not, however, give any account of what fate will befall the Bank of England, or its senior staff, should this collection of explanations and reports be felt to show that policy is poor. The ECB's own descriptions of its accountability, such as Issing, Gaspar, Angeloni and Tristani (2001) follow very much the same lines and I have commented on these at more length in Forder (2002).

The same general thought has been pursued by a number of academic studies, such as Elgie (1998), Bini-Smaghi (1998), Amtenbrink, de Haan, and Eijffinger (1999), and Eijffinger and de Haan (2000), which seek to measure accountability by counting how many specified criteria are satisfied by each bank. Although not all of these discussions are unequivocally supportive of the actual arrangements, and particular doubts are expressed about whether the ECB is, even on these authors' terms, sufficiently accountable, they all share a basic limitation. That is that the idea of accountability is described entirely in terms of having targets, reporting, answering questions, and in some cases, listening to comments. This puts them sharply at variance with traditional conceptions where the existence of sanctions, usually including dismissal, are the essence of accountability, with the paradigmatic case being the accountability of a government to a Parliament.

Clearly, the existence of a sanction which did include the possibility of dismissal would inevitably compromise independence.[68] That fact, however, does not point towards 'accountability' being constituted by whatever reporting obligations it is convenient to put on central banks, but rather that society faces a genuine choice between institutions being accountable and their being independent. How that choice is to be resolved is, of course, the essence of the debate over central bank independence, and raises very much the same normative questions as the issue of the value of democracy. Whilst in a sense the interest that has been shown in 'accountability' is to be welcomed, treatments of it by the advocates of independence seem uniformly to fail to grasp this essential normative issue. Consequently, they are led to the construction of concepts of accountability without reference to the question of the role it plays in democratic society. For example, if the limit of popular participation in the government of the good society really is merely for us to be kept informed of what is being done, then reporting requirements may well satisfy its requirements. But to establish that would require an argument about the nature of the good society, and that, the advocates of independence have not offered.[69]

By the same token, the idea that obligations to report can make policy more accountable than it is when it is democratically controlled also misses the point. For example, Roll et al. (1993, p. 53) say 'clear standards' against which performance can be judged improve accountability and Goodhart (1994, p. 1428), referring to Roll et al., says 'a shift to "independence" in circumstances where there is a single, quantifiable objective which the central bank is mandated to achieve, makes the central bank more, rather than less, democratically accountable'. This view no doubt owes something to the idea that 'transparency' of policymaking is desirable, as it may well be.[70] And it may also be true that clear standards and extensive reporting can improve accountability. But that improvement comes on the basis that sanctions remain, not that targets and reporting are an alternative to them.[71]

It is apparent, then, that the advocates of independence have settled on a notion of 'accountability' which misses the essential point and is inadequate to the task of establishing the democratic legitimacy of independent central banking.[72] Placing an obligation to 'explain' on agencies is not a means by which the demos governs. In the conception of the advocates of independence, the sanction for poor explanations, in so far as there is one, presumably, will be ridicule, but that is all. One can only understand that the definition of 'accountable' is taken to be that eccentric judgments as to the value of different objectives, the pursuit of bureaucratic objectives, clientelism, electoral manipulation, indolence, or simple stupidity will be evident to the public. On this basis, one could wind up methods of popular control, dismissal and reward altogether. The definition of democracy, these authors appear to hold, requires only that it be obvious when we are badly governed.

6. CONCLUSIONS

The advocates of independence face three challenges: to advance a theoretical account of the benefits of independence; to provide evidence supporting it; and to make a persuasive argument that any restrictions on democratic decision-making are a price worth paying. Any appearance that they have done so, I have argued, is an illusion. No complete case has been made. Rather, there are various parts of different cases, and whilst it is far from clear that many of these parts withstand scrutiny, it is all too clear that no complete case can be constructed from them. Therefore, the advocates of independence need to provide further arguments.

A second striking characteristic of the argument is that a variety of different proposals go under the banner of 'central bank independence'. The remarkable degree of isolation of the European Central Bank from democratic control is called 'independence'; it is emphasized by its advocates that complete protection from political control is necessary to its successful operation, and it is said that this is desirable because monetary policy is a purely technical matter involving no value judgements; politicians in control will set it for electoral ends; and independence will improve credibility. On the other hand, arrangements like those for the Reserve Bank of New Zealand, and Bank of England are advocated on the same grounds, but in this case it is emphasized that a crucial characteristic of the arrangement is that the elected government remains in ultimate control. How both of these claims can be said to be supported by the same theory and evidence is something of a mystery.

In addition to the casual attitude that has been taken to the interpretation of economic theory and the reluctance to take the search for evidence beyond the most basic level, the advocates of independence have also failed to acknowledge, much less respond to the issue of the value of democracy. Far from allowing that democracy might have intrinsic value, or that there might be serious issues of policy which can be resolved in no better way than by vote, they have not even responded to the concern that it might be the unelected, much more often than the elected, who lack the incentives to pursue the public interest. This is indeed a curiosity in a profession which in so many other ways seems to be deeply indebted to the liberal tradition of Locke. Central bankers can do no wrong, it is assumed, just as it was once assumed, but is now thought beyond even derision, that central planners could do no wrong.

Despite these limitations of the case for independence, it is perhaps appropriate to hope that a better one can be made. And this may be possible. After all, the case made for it may be poor, but the conclusion may yet be right. Such an argument would be most welcome, not least because it would make clear why what is said in defence of central bank independence is not to be understood as implying a general critique of democracy. But also, since the world has very largely committed itself to central bank independence to such a degree that it will be no small feat of political leadership to reverse it, it would be comforting to know that there is a proper rationale. Perhaps then, with their political victory now secure, the advocates of independence will turn their minds to completing their case.

NOTES

* I have benefited from comments on earlier versions of this work by Philip Arestis, Jörg Bibow, Geoff Harcourt, Hubert Kempf, Jeff Kulkarni, Malcolm Sawyer, Adam Swift, Euclid Tsakalotos, Albert Weale, and others who participated in seminar discussions at Paris-I and the Athens University of Economics and Business.

1. This is not always perfectly clear. What does one make, for example, of the remark of former Bundesbank President Blessing (1970) that a central bank 'has to be independent because one cannot really trust the politicians – they are all a rotten lot and any of them might seek to get out of a hole by printing money'? One wonders what Mr Blessing would have trusted to politics.
2. An argument for independence which does not originate in such a position might be made, and would not necessarily be subject to all aspects of my critique. Balls (1992) clearly regards independence of a kind much like that later enacted by the Bank of England Act, as an alternative to monetarism, but it is not clear to me that he dissents from the doctrine of the neutrality of money, and he clearly presumes that independence makes easier the

achievement of low inflation. Keynes (1932) gave much earlier support to a similar scheme, and his views are discussed in a most interesting account by Bibow (2002) who notes, amongst many other things, that it is not quite clear how, if at all, Keynes' views on independence would have been changed by the thought processes leading to *The General Theory*. Many authors, of all kinds of general outlook, writing before the wave of enthusiasm for independence of the 1990s presume that some degree of independence is desirable and probably inevitable but are not properly part of the movement to advocate it – see for example the contributions to Toniolo (1988) – and their views are not the primary subject of consideration here.

3. Raising doubts about whether this evidence is of any value is not the objective of this chapter, but I have objected, in Forder (1996) to the statute-reading methodology on the basis that no measure of the legal provisions tells us anything about whether a central bank acts independently; and in Forder (1999) I have tried to show that there is in any case no agreement amongst the statute-readers as to the nature of independence so that their studies are mutually contradictory. Even taking the studies on their own terms, Mangano (1998) casts great doubt on the accuracy of two of the major ones, and it would be nice to think that Forder (1998a) deals as effectively with the third. Here and throughout, the 'major' studies are understood to be those by Alesina (1989), Grilli, Masciandaro and Tabellini (1991) and Cukierman, Webb and Neyapti (1992). There are many small variations on the first and last, as well as a large number of less frequently cited studies, most of which consider a much smaller number of countries than do these three.
4. So well established is some version of the idea of the natural rate of unemployment, that it is probable that even when no mention is made of it, the advocates of independence intend it to be understood that its existence is being presumed.
5. Exceptionally, Oatley (1999, p. 399), in a paper generally sympathetic to the case for independence, begins by saying that the case depends on whether the economic benefits 'outweigh the political costs that arise from the weakening of democratic control' but even he makes no attempt to weigh the issue, offering conclusions relating exclusively to economic outcomes.
6. Those who are favourably impressed by the fact that Mussolini caused the trains to run on time, for example. On a rather more theoretical level Nelson (1980) takes precisely this view, coming out in favour of democracy.
7. As Euclid Tsakalotos emphasized to me, the process of deliberation is an essential aspect of such conceptions of democracy. And since part of the point of deliberation is to seek to change preferences, any approach to social theorizing which, like neoclassical economics, has a strong presumption of their exogeneity is always going to find it hard to accommodate the republican tradition. That is no reason to dismiss it at the point of institutional design. Rather, it suggests that when moving into policy areas where preference change might be relevant, the economist should be particularly vigilant in considering the consequences of implicit assumptions.
8. Weale (1999, p. 186) also gives conditional support to central bank independence, saying that the case for it is 'couched in the right sort of way, from the point of view of the principles involved', but it seems to me that its appearing so couched is an illusion originating in the various deficiencies of the economic analysis.
9. Judging by the words penned for him by Thucydides in *The Pelopenesian War*, II, xxxv–xlvi.
10. I believe the use of this expression in this context originated with Grilli, Masciandaro and Tabellini (1991, p. 375) who say, slightly more carefully, 'having an independent central bank is almost like having a free lunch; there are benefits but no apparent costs in terms of macroeconomic performance', although they make no suggestions as to what other kinds of costs there might be. Debelle and Fischer (1994, p. 199) say, without qualification, 'the most striking result of the empirical work is that central bank independence appears to have *no* adverse consequences.' (italics in original).
11. The ideas of the 'natural rate of unemployment' and the 'non-accelerating inflation rate of unemployment' are closely related and many authors use the terms interchangeably. Certainly they are usually thought to share what is the salient characteristic for present

purposes, which is that they both imply that monetary policy has no lasting effect on employment. Whether this is a proper interpretation of the NAIRU has been questioned by Sawyer (1999).

12. Quite typical, for example, are Snowden and Vane (1999, p. 53), who are perhaps describing the argument, rather than making it, say 'The *theoretical* case for CBI relates to the general acceptance of the natural rate hypothesis that in the long run the rate of inflation is independent of the level of unemployment' (italics in original).
13. In addition to the question of the existence of the natural rate, there is a further issue as to whether the central bank is able to control the money supply. This has been emphasized by Carvalho (1995), Rymes (1995), Dow and Rodriguez-Fuentes (1998), and Aybar and Harris (1998) without attracting much of a response from the advocates of independence. (In Forder (2000a), pp. 181–2 I doubted whether this would lead to an effective critique of the economic theory said to support independence; but whether it might raise other normative issues is another matter). Lapavitsas (1997) makes a well developed argument on a similar theme, although his objective is to argue that the central bank is so embedded in the financial system that its 'independence' must be substantially mythical.
14. A consideration which was the point of Rogoff's (1985) advocacy of discretionary policy. Although he is frequently quoted in support of central bank independence he was criticizing a policy of exclusive focus on the control of inflation. The same objection to strict inflation targeting would, of course, arise even in the absence of central bank independence.
15. For example, King (1997, p. 441) says that the Bank of England should occasionally be expected to miss its target and it would then have to 'explain why, in some circumstances, it would be wrong to try to bring inflation back to target too quickly.'
16. This argument applies straightforwardly to cases of true independence like that of the European Central Bank. There is a considerable further ramification in the case of central banks that have a target set, and perhaps changed, by the government, such as the Bank of England. The issues that arise there are considered more fully in section 5.
17. Roll et al. (1993, p. 8) makes the non sequitur explicitly: 'At best, monetary policy affects output and jobs only in the short run. In the long run, it affects only inflation'.
18. There is a temptation to think that this argument should be construed as one for firm commitments to low inflation, which would then force the fiscal authority to control its borrowing. Sargent and Wallace discuss this in terms of which authority is given the role of 'first mover'. There is clearly a practical issue as to whether the 'move order' is a policy choice, but in any case, an advance decision to resolve a trade off in a particular way – in this case to prefer default to monetization should the issue arise – is not a denial of the existence of the trade off.
19. See, for example, Bliss (1986).
20. For example, on the understanding of Bhagwati and Patrick (1991).
21. Clearly one might argue about the interpretation of events, but the pertinent point, which is that such a sequence is conceivable, is surely undeniable.
22. See, for example, Forder and Menon (1998).
23. It is a theoretical illusion that if the rate of unemployment is unchanged, then the distribution of income must be as well. Certain formulations of the natural rate doctrine might carry that implication, but they would need to be assessed separately.
24. His argument is in obvious, and puzzling, contrast to that of Blinder (1997).
25. There are occasional claims, most famously by Galbraith (1960) that inflation is most damaging to the poor. It could be inferred that their interests are served by independence. But the point often made that many of the poor are recipients of state benefits or pensions and are therefore on 'fixed incomes' is question-begging, since they could be indexed. So if there is an important question here, it is why there are such fixed incomes. It should also be noted that any idea that central bank independence is desirable because it favours the poor is a normative claim and therefore provides no escape from the basic issue raised in this chapter.
26. Recently, for example, by Shapiro and Hacker-Cordón (1999).
27. Most of the explicit discussion of democracy is in *Republic*, VIII and IX.

28. That is to say that there are three that remain when one has discounted the argument that the case is made simply by the claim that monetary policy is particularly hard for the demos to understand. If that is not to be, in effect, a general argument against democracy, it depends crucially on the word ‘particularly’, and that would seem to make it false.
29. *Republic* VI, 488–489a.
30. Although it can hardly escape attention that many of those advocating independence treat it as axiomatic that electorally motivated policy is inflationary. I drew attention to one egregious case of ‘testing’ the claim by assuming it and then describing events in the light of that assumption in Forder (2000a).
31. The British election of 1992 is an outstanding case. The devaluation of the pound, which so clearly restored economic fortunes, it should be remembered, came after the election – quite contrary to what would be expected on the basis of Nordhaus’ line of thinking.
32. The United States in 1972 is a fairly clear case.
33. There is a huge literature on the political business cycle, much of it addressing the United States. Nothing seems to have happened to change Alt and Chrystal’s conclusion. We are certainly a long way from the political business cycle being established fact.
34. Another curiosity of the argument, again suggesting that the issue of political legitimacy has not been treated seriously, is that if governments were setting poor policy because it helps win elections, one would have expected the further case for independence to be made that this results in unjust electoral outcomes, and therefore ought to be prevented even leaving aside economic costs. But I am not aware of that argument having been made by the advocates of independence.
35. They are following the idea of Hibbs (1977) who suggested that left-wing governments consistently pursue more expansionary policy than right-wing ones, but the argument is recast in a rational expectations form.
36. The model is ‘New Classical’, meaning that only unanticipated inflation affects output, and economic agents (and hence, presumably, voters) understand policymaking sufficiently well to anticipate inflation correctly once they know which party is in charge. Policy is then incapable of reducing unemployment.
37. Presumably, in following Hibbs, the authors were reacting to the appearance that parties did differ in their attitudes to inflation. It is not clear that this is still true. In any case, that fact raises the suspicion that the assumption that inflation brings no benefits (to anyone) is false and the model mispecified for that reason.
38. In Forder (2004) I have described a number of other muddles as to what the theory of credibility shows, and argued at greater length that these various confusions have contributed to creating the impression that there is some problem which uniquely affects monetary policy and which is solved by removing it from democratic control.
39. This attitude is derived from the assumptions which have the effect of giving the policymaker an incentive to deviate from the commitment, and it is therefore rational in the neoclassical economists’ sense for the private sector to exhibit this scepticism.
40. Even if credibility were a public good this would not be strictly true since there is still the question of the intrinsic benefits of democracy, but one can see how the illusion could be pervasive.
41. I have considered the specific question of whether, if there is such a thing as a credibility problem in Barro and Gordon’s sense, central bank independence might solve it in Forder (1998b).
42. No doubt contributing to the impression that independence solves the credibility problem is the tendency to use the expression ‘credible’ in a way which does not accord with the theoretical meaning it has. That might be unobjectionable if it were not also implied or believed that the theory of credibility – meaning the literature derived from Kydland and Prescott – is operating in support of whatever proposal it is said is ‘credible’. Equally, merely to label an arrangement ‘credible’ without an account of what that means or why it is desirable, is not to make an argument for it.
43. Backus and Driffill (1985), working very much in Kydland and Prescott’s framework, make this point.
44. That is, once again, it serves the limited intended role of suggesting democracy might

bring some costs – not the argument required of showing them to be greater than its benefits.

45. I am struck by the fact that there is no reference to any paper by Chant and Acheson in Alesina (1988), Alesina (1989), or Grilli, Masciandaro and Tabellini (1991), although these authors are, I believe, the leading advocates of independence. Eijffinger and de Haan (1996) is, I believe, the most complete survey of the literature on independence, and in general favourable to it. They also have no reference to any work of Chant and Acheson. Cukierman (1992), Schaling (1995) and Lippi (1999) are whole books concerned with the consequences of independence that have no reference to these authors, and the same could be said about a vast number of others. Nor do these authors reveal any concern over the accusations against the Fed.
46. The advocates of independence, I think, cite these two papers, more than any others which express scepticism of their proposal, but at least in the vast majority of cases, they acknowledge them only as raising an issue about the evidence connecting independence and low inflation (and not one they seem to be minded to take seriously), rather than as pointing to an issue about sectional interests.
47. Goodman (1992, p. 63) suggests they adjusted policy to provoke the resignation of Schiller in 1972; Kennedy (1991, ch. 3) believes they contributed to the fall of the Schmidt government in 1982; Marsh (1992, p. 170) attributes the fall of Erhard, Keisinger and Schmidt all to the Bundesbank, although in his case, without saying much about it.
48. Clearly the accusation of Rose (1974) that the Federal Reserve sought the re-election of Nixon in 1972 belongs in a similar category. It would be interesting to see equivalent studies of other 'independent' central banks.
49. Blinder (1999) hints at a recognition of this problem when he denies that policymaking at the Federal Reserve when he was a Board member was influenced by anything other than the attempt to do a good job. That is no doubt an accurate assessment of that time and place, but it does not make a general argument for independence.
50. Delegation fits with many proposals for central bank independence, but in the majority 'removable … immediately' is anathema. The exceptional cases where this may not be so will be considered in section 5.
51. A point which might particularly be noted by those advocates of independence who appear to feel that the case for it is adequately made by reference to the evident competence of certain individuals who hold or have held senior positions in central banks.
52. His idea that the essence of the democratic process is competition for leadership, rather than policy choice, is itself a rebuttal of views of independence which depend on the suggestion that the only thing democracy might do is select an inflation rate.
53. Friedman (1962) opposed central bank independence on the basis that it is undemocratic. The tension between the two articles is probably more apparent than real: in 1967 he does not address independence per se, but discusses how Simons would have reacted to the problem if he had seen the data Friedman takes to be conclusive for monetarism. In 1962, the 'independence' he is opposing is the discretionary control of policy by unaccountable central bankers, not the idea that the implementation of a straightforward rule does not need to be subject to detailed democratic control. Clearly modern proposals for 'central bank independence', even when presented as derived from the case for rules rather than discretion in fact seek to allow central bankers the exercise of a good deal of judgment and therefore fall foul of Simons' complaint.
54. Tobin (1994) seems to feel the same way as Levy, although his comment on the point is very brief.
55. A problem of legitimacy might still arise from a lack of transparency in the process by which control is exercised. Common sense suggests that is a lesser problem than the one that arises from the fact that control is not exercised.
56. One would not, after all, argue that the possibility of restoring monarchy means that it is never abolished.
57. The Greater London Council was abolished in 1986, and the office of Mayor and the Greater London Authority created with effect from 2000.
58. Reported by Elgie and Thompson (1998, pp. 80–81).

59. On a very theoretical level, Walsh (1995) takes seriously the problem of aligning the 'independent' policymaker's objectives with the social interest, but the informational requirements are such that it remains entirely theoretical. Svensson (1997) takes the style of analysis further, but with the same limitation. I have considered this and other limitations of such models in Forder (1998b).
60. The case of the Reserve Bank of New Zealand is a widely respected example of Parliament specifically reserving the right to change the central bank's objective whilst leaving it free in its pursuit. The arrangements for the Bank of England are, for current purposes, the same. The position of the European Central Bank is different since its obligation to pursue 'price stability' without qualification is in Article 105 of the Maastricht Treaty.
61. Essentially this argument was made by Busch (1994).
62. As central bankers repeatedly acknowledge, for example, in many of the contributions to Haldane (1995).
63. So, for example, those who advocate independence on the basis that it is intended only to protect policymaking from 'day to day pressures' presumably will not support more thoroughgoing arrangements like those of the European Central Bank.
64. Cukierman (1994, p. 1444), for example, does not seem to take this issue seriously. He says 'One virtue of this arrangement is that it deters the political principals from using their override option frivolously because once they exercise it the blame for not attaining the inflation target becomes theirs.' And so it might, but there is no gain in that. Whose would the blame have been in the absence of any kind of independence?
65. The political cost faced by the British government when it failed to meet its exchange rate target in 1992 illustrates what a powerful incentive mechanism this could be. The Labour government's loss of the 1970 election when there appeared to be a deterioration of the balance of payments – on the soundness of which they had placed such emphasis – is a related case.
66. Some of them include two dimensions, but not these two, and they do not put the distinction to much use. What came to be called instrument independence was first adopted in New Zealand in 1989, but this made no impact on the major studies because even those published later were using data series that ended before then.
67. For example, Parkin and Bade (1980, pp. 9–10) revealingly say 'Even though we have established that four of our twelve central banks are independent of government in the formulation of their monetary policy, it is still possible that governments can exercise leverage via their control over the appointment and removal of members of the policy board'. This and other sources of 'leverage' then, quite naturally, became Parkin and Bade's other criteria of independence. Clearly had they been considering central banks with arrangements like those of the Bank of England, this line of thinking would have forced them to regard them as non-independent.
68. The same issues about theory and evidence would then arise as were considered in relation to the possibility of a government changing a central bank's target. It should be noted that King's discussion of the accountability of the Bank of England omits reference to what is in fact a key consideration, namely that the members of the Monetary Policy Committee are appointed for three-year terms, and may be reappointed by the government. Their tenure in office therefore depends very much on their satisfactory performance.
69. No doubt the failure to realize the many sources of value democracy might have is what has kept them from treating the issue of accountability as it should be treated. A clear symptom of this is that some authors begin their discussions by reporting what the dictionary says about 'accountable'. It is as if one can learn the constitution of good society by looking up words. If, obstinately, they were to insist on using the word to mean 'required to report' or some such, it would not win any argument, but would merely show that 'accountability', so defined, is not what is required to achieve democratic legitimacy (or at least, if it is, an argument would be required to show it). I believe even the more substantial discussions of accountability-by-reporting, which are not usually focused on central bank independence, such as Majone (2000), do not truly get to grips with the variety of values democracy might serve.
70. It may be desirable (with or without independence) because it affects policy effectiveness,

or it may be that it has normative value in itself – in either case an appropriate argument would be required to establish the point. Unlike 'accountability', 'transparency' does not have well established usage in politics, and the economics literature has not settled on a clear definition.

71. The vacuity of this treatment of 'accountability', and indeed the valuelessness of what is offered is demonstrated by the case of the ECB. The Treaty requires it to achieve 'price stability', the European Central Bank (2001, p. 7) defined this, saying the definition 'sets a benchmark against which the public can hold the ECB accountable for its performance'. But it missed the target every year from 2000 to 2003. The extent of its 'being held accountable' seems to be no more than that it regularly blamed factors beyond its control for the outcome, and forecasted inflation returning within the target range. The possibility that this inflation was beyond their control is, of course, immaterial to their own story, since their definition is the thing which, they say, provides the standard of assessment. The issue is: in what sense does the existence of this definition allow anyone to 'hold' them 'accountable'?
72. Mishkin (2000) exceptionally, notes the importance of dismissability, saying, (pp. 2–3) that a 'basic principle of democracy' requires that the public 'must have the capability to 'throw the bums out' or punish incompetent policymakers through other methods'. But when he comes to consider the implications of this (pp. 6–7) there is no mention of punishment, and it is said that a way of 'ensuring' accountability is to allow the legislative act creating the central bank to be 'modified by legislation at any time', and that another way is to 'mandate periodic reporting requirements'.

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7. Keynes as a bourgeois Marxist

George Katiforis

1. INTRODUCTION: THE LIBERAL'S QUESTION

'Am I a Liberal?'

John Maynard Keynes asked this question back in 1925. He was teasing his audience to place him on the British political spectrum – Conservative, Liberal, Labour – and to find it difficult. More seriously, he was trying to define his position towards what he considered the main questions of his day: peace questions, questions of government, sex questions, drug questions and economic questions. Regarding the last ones, he proclaimed himself in favour of transition 'to a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability.' (Keynes, 1972, p. 305)

Marxists should have rejoiced at such prospects. The emphasis both on planning and on social responsibility were things which they passionately believed in. There they had Keynes, adhering to their point of view, why not embrace him? They would, of course, insist on the requirement of social ownership of the means of production, to give effective bite to economic planning, but the stated aims of conscious steering of the economy in the interests of social justice and economic stability, why should they not praise him for endorsing those?

Yet his contemporary Marxists remained, on the whole, rather cold to Keynes, when they were not actively hostile. For his part, the future author of the *General Theory* did not spare their feelings much either. He did not refer to Marx, except contemptuously, he preferred to seek 'the actual alternative to Marx's communism' in some obscure American institutionalist Professor Commons. Commonism instead of Communism. One can well imagine the effect this must have produced on the self-confident, hardline Marxist ideologues of the 1920s.

The question whether he himself was a Liberal, Keynes chose not to answer. He tried to conceal his deep uncertainties, his sense of indeterminacy of his own position, behind the veil of his scintillating wit. The problem of classification of his own opinions he left dangling in mid-air, for posterity to be intrigued with. Now posterity – the part of it represented by this humble essay – begs permission to respond with an iconoclastic answer: ‘No. You are not a Liberal. What you are in fact is a bourgeois Marxist’.

For posterity to venture such a statement with some claim to be taken seriously, mere impertinence is clearly not sufficient. Evidence is also required from Keynes’s own works. For the ‘bourgeois’ part of the characterization evidence is easy to come by. Keynes was a high bourgeois and proud of it:

> Ought I, then, to join the Labour Party? Superficially that is more attractive. But looked at closer, there are great difficulties. To begin with, it is a class party, and the class is not my class. If I am going to pursue sectional interests at all, I shall pursue my own. When it comes to the class struggle as such, my local and personal patriotisms … are attached to my own surroundings. I can be influenced by what seems to me to be justice and good sense; but the class war will find me on the side of the educated bourgeoisie. (1972, p. 297)

This settles the ‘bourgeois’ part; with the ‘Marxist’ part, however, evidence presents an altogether different picture. If looked for in references to ‘Marxism’ in the General Index of Keynes’s *Collected Writings*, it would not only not support, it would flatly contradict any suggestion of even remote sympathy with Marx’s ideas: ‘Marxian socialism must always remain a portent to the historians of opinion – how a doctrine so illogical and so dull can have exercised so powerful and enduring an influence over the minds of men, and through them on the events of history.’ (ibid., p. 285)

Dim-witted, dull men, always a ready prey for the false prophets of irrational doctrines, there has been no shortage of such men on earth since time immemorial. How could John Maynard Keynes, the son of Neville Keynes, the product of Eton and King’s College Cambridge, the select student of the precious aesthete G.E. Moore and the hard-headed realist, Alfred Marshall, how could he be taken in like the fools? ‘How can I accept a doctrine which sets up as its bible, above and beyond criticism, an obsolete economic textbook which I know to be not only scientifically erroneous but without interest of application for the modern world?’ (ibid., p. 258). And how can anyone, confronted with the weight of such evidence, still for a moment entertain the idea that there might be traces of Marxism in Keynes’s thinking, even in the diluted form of a bourgeois Marxism?

Yet, general indexes to collected writings can sometimes be greatly misleading. It is in their nature to index only the explicit, whereas analogies between patterns of analytical thought are often implicit, remaining unbeknown even to the authors from whose works they emerge. If one is a thinker, one can be a master of one’s feelings, value judgements, aims, class allegiances. Strangely, it is more difficult to be a master of the logic of one’s own analysis. This he has to allow to master him, to take him wherever it, not he, wishes to go. If it leads him in the company of another thinker, no matter how unlikely or unlikable, so it has to be – that is, if one is a thinker.

Keynes's general indexes can say nothing on such hidden analogies. For present purposes they represent in the *Collected Writings* the entirely wrong end. The right end to begin with Keynes, as with many other great writers, is not at the end but almost right at the beginning, at the moment in life when a man of genius, on the threshold of maturity but still youthful in intent and purpose, decides to break with the conventions, the hypocrisies, the moral bankruptcy, the falsehoods, the criminal devices of a whole decrepit order of things and stake his claim at changing the world.

The young German philosopher, Karl Marx of the *Rheinische Zeitung* in 1842, of the *Theses on Feuerbach* in 1845, of the *Neue Rheinische Zeitung* and of the *Communist Manifesto* in 1848 was such a man. Exasperated at the petty tyranny of a decrepit, operatic, late-baronial regime in Germany at the time, and at the fatuity of its impotent bourgeois intellectuals, he turned to the working class and to Revolution: 'The philosophers have only interpreted the world in various ways; the point is to change it'. For the audacity of his challenge he paid dearly. A lifelong exile, from his beloved native Germany, he ended up in an alien, for him inhospitable, unfriendly and uncomprehending Victorian London, which he did not himself comprehend much either.

Keynes, of the *Economic Consequences of the Peace* in 1920 was another such philosopher, determined to change the world. The butchery and self-seeking idiocy of the First World War which, although with mounting resentment, he had helped his government to win, roused in him strong opposition. Admittedly, he was not of Marx's fighting class. He never issued a call to the arms. He never invited any class-uprising. No powerful authorities ever became annoyed enough with him to banish him from his home and country. On the contrary, impressed by his outstanding intellect, they showered on his rising star distinctions, well-paid civil service posts, contacts, interesting missions, invitations to the very best society:[1]

> This weekend I am staying with Lady Jekyll, the other guests being Mr and Mrs McKenna and Mr and Mrs Runciman … Last weekend I went to Ottoline's at Garsington. Sir John Simon came to tea on Sunday – I wish he wasn't such a dull man. I've dined twice at Downing Street in the last fortnight … Lord and Lady Waldstein asked me to dine to meet the American Ambassador. I dined with Violet Asquith and her new husband in her new house, her first party in honour of Margot; I have delivered my evening lecture at the Admiralty and I have testified before the wicked leering faces of the Hampstead Tribunal to the genuineness of James's conscientious objections. Oh, and I've brought out the March E. J. and entertained a Swedish professor.

Quite a different train of life from that of an impecunious, jobless, exiled nineteenth-century German Philosopher, conspiring darkly with the journeyman tailors, the bakers and watchmakers of the ‘League of the Just’, in attics above pubs, or seething away in frustrated anger in the Reading Room of the British Museum. Yet, a moment came when, by his own choice, Keynes left behind him the lucrative but, presumably, intellectually arid fields of the Treasury in London, preferring instead the leaner but green pastures of a University, not all that distant from London. From Cambridge, where he took his stand he issued, in his own time and in his own style, his challenge, his bourgeois Manifesto: ‘The forces of the nineteenth century have run their course and are exhausted. The economic motives and ideals of that generation no longer satisfy us: we must find a new way and must suffer again the malaise, and finally the pangs, of a new industrial birth.’ (Keynes, 1920, p. 238)

2. BOURGEOIS AND PROLETARIANS

So the philosophers, each in his own century, each in his own peculiar way, came forward to change the world. In general outlook and mentality they were as different as they could be, but certain common points of reference they did share. Their world, for both of them, was dominated by capitalism. Their world, for both of them, had already set itself in motion. Revolution was in the air. They had to think deep and hard about revolutionary change. Little did it matter that for one of them the Revolution constituted a fund of inspiration while for the other it was a source of desperation. The phenomenon had to be confronted first and foremost at the intellectual level, dispassionately, seriously, hence in its relativity, in its inextricable connection with the State. There can be no break without continuity, there can be no change without permanence, there can be no serious study of the Revolution without a corresponding thorough understanding of the status quo. A baffling paradox lurks behind this proposition; Marx and Keynes had both to deal with it.

If, in class-divided society, the Many are deprived of means while affluent are only the Few, if – privileges of affluence notwithstanding – power ultimately resides in numbers and if oppression drives the Many to revolt, as Marx would maintain, or ‘the passions of malignity, jealousy, hatred of those who have wealth and power (even in their own body)’ (Keynes, 1972, p. 300) prompt them to rebellion, as Keynes would prefer, the paradox is not that revolutions occasionally do occur. It is that they do not break out all the time. Why do we not find our societies in a state of permanent revolution or permanent counter-revolution? How are we to explain the long intervals of social armistice, of relatively stable balance of forces in the social system, prevailing between two subsequent acute phases of the class war? We have two model answers to consider. Answer number one:

> Thus this remarkable system depended for its growth on double bluff or deception. On the one hand the labouring classes accepted from ignorance or powerlessness … a situation in which they could call their own very little of the cake that they and Nature and the capitalist classes were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice …
> In writing thus I do not necessarily disparage the practices of that generation. In the unconscious recesses of its being Society knew what it was about … Society was not working for the small pleasures of to-day but for future security and improvement of the race, – in fact for 'progress'. If only the cake were not cut but was allowed to grow … a day might come when there would at least be enough to go round, and when posterity could enter into the enjoyment of our labours. In that day overwork, overcrowding and underfeeding would come to an end, and men, secure of the comforts of the body, could proceed to the nobler exercise of their faculties. (Keynes, 1920, pp. 17–18)

And here follows answer number two:[2]

> The connection between distribution and the material conditions of existence of society at any period lies so much in the nature of things that it is always reflected in popular instinct. So long as a mode of production still describes an ascending curve of development, it is enthusiastically welcomed even by those who come off worst from the corresponding mode of distribution. This was the case with the English workers in the beginnings of modern industry. And even while this mode of production remains normal for society, there is, in general, contentment with the distribution, and if objections to it begin to be raised, they come from within the ruling class itself (Saint-Simon, Fourier, Owen) and find no response whatever among the exploited masses. (Engels, 1969, p. 180)

The first answer is based on the experience of capitalism in Europe – essentially in Victorian England – before the Great War. The second refers to a characteristic allegedly shared by capitalism and all other 'antagonistic modes of production' (the Marxist term for a social system based on class exploitation) throughout human history. What is the difference between these two answers?

Virtually none. Keynes's answer is effectively Engel's answer minus the historical generalization. Over much else the two authors, the two systems of thought as far as represented by the given quotations, are in agreement. Capitalism is a historically transient form of social organization, on this there is a fundamental coincidence. It will be succeeded by its opposite regime; instead of inequality and poverty, affluence and social justice will then prevail. Capitalism is preparing this transition unintentionally, in a contradictory manner, by using the poverty of the majority to aggrandize the wealth of the few. Capitalist society is class-divided between a bourgeoisie and a proletariat. The latter gets a raw deal out of the situation, whether one calls it exploitation or not – and Keynes has always been very careful to avoid using the terrible 'E' word, of the frightening implications. But the proletariat, for reasons on which Engels and Keynes are essentially in agreement, takes its time about registering the inequity of its position and beginning to upset the capitalist applecart.

Interesting coincidence. The bourgeois reformist, whom the present chapter chooses to describe as a bourgeois Marxist, and the wealthy nineteenth-century revolutionary who in style of life, though not at all in beliefs, was the archetypal bourgeois Marxist, both satisfy their need to rationalize the historical sequence of stability and revolution by attributing to the working class an almost mystical insight into the logic of the historical process, a subconscious understanding vindicating capitalist exploitation. As a consequence workers do not at all resent being exploited. They positively enjoy it, if only it is done in the greater cause of human material progress. They may not know that they love it so much ('in the unconscious recesses of their being' (Keynes) or 'in popular instinct' (Engels)) but they do, despite even 'the passions of malignity, jealousy, hatred of those who have wealth and power' besetting, in Keynes's opinion, the conscious layers of their existence.

Such are the wonderful uses of an acquaintance with Freud. When the subconscious dictates, consciousness is not all that hard to manipulate. A little double bluff here, some deception there, generous doses of ignorance and powerlessness in between, and the conscious side of things is pulled easily into line. The master's consciousness is, after all, as much in the dark as the men's concerning history's Grand Design, although masters may be assumed to be doing rather better out of their side of the double bluff than workers out of the ignorance and powerlessness that is their lot.

Keynes never held the working class in very high esteem. For him they represented the passive element of capitalism. They were structurally incapable of taking any positive initiative in the unfolding of the historical project of society. They were useful, indeed they were indispensable, but merely as toilers, dumb beasts of burden. They ought to be treated fairly, as long as fairness to them caused no prejudice to the exploitation mainsprings of capital accumulation, but they also had to be kept firmly in their place under the undisputed authority of a purely bourgeois Establishment. Given these premises, to attribute to the workers the false consciousness (or should one, in acknowledgement of Keynes's Freudian overtones, say 'false subconsciousness') of identification with the aims of a capitalist society that exploited them, constitutes no anomaly for Keynes's outlook.

Engels, on the other hand, even if his intention was clearly not to cultivate an apologetic myth but rather to construct an analytical 'mythodology', had no right to be so complacent. In the unclouded vision of his fiery youth, long before he settled down at late middle-age to compose the canonical Marxism of *Anti-Dühring*, he has given evidence of a much greater sense of reality. Readers of his vibrant youthful masterpiece, The *Conditions of the Working Class in England* – a work in which seething indignation at social injustice boils over from pages upon pages of solid empirical research – would be hard pressed to discover, in the attitudes of industrial workers described in that book, any trace of wild enthusiasm over the system of distribution in nineteenth century England. It was the contrary attitude that Engels discovered among workers and he found it only too natural: ‘A class which bears all the disadvantages of the social order without enjoying its advantages, one to which the social system appears in purely hostile aspects – who can demand that such a class respect this social order?’ (Engels, 1975, Vol. IV, p. 424).

Yet respect for the social order is exactly what the *Anti-Dühring* thesis predicts that English workers should have shown, indeed ‘enthusiastically’ so, under the capitalist mode of production ‘in the beginnings of modern industry’. Or were, perhaps, these beginnings earlier than in 1844? How far back must we go to find workers radiating goodwill towards their exploiters? In the eighteenth century they were smashing up machines. Earlier still, bloody legislation had been needed to keep them quiet, while they were being inducted into the pleasures of the bourgeois labour market, or so at least Marx in *Capital* would have us believe.

The further back in time, the more rebellious workers seem to become. Working class acquiescence to the capitalist status quo is a rather recent phenomenon. It characterizes late, in the Marxist view declining, rather than early, robustly rising capitalism. Little had Engels foreseen in 1878, the year of publication of the *Anti-Dühring*, that the fate of Marx’s communist movement in the century following his own, would revolve around and ultimately be sealed by this reversal of working-class loyalties. Just as little could Keynes resist, at the beginning of the present century, the feeling that disaster, partly to be precipitated by changes in workers’ attitudes, was already gathering thick around the capitalist system:

> [T]he principle of accumulation based on inequality was a vital part of the pre-war order of Society and of progress as we understood it … this principle depended on unstable psychological conditions, which it may be impossible to re-create. It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the labouring classes may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation. (Keynes, 1920, p. 19)

Or, as Marx put it, 'the knell of capitalist private property sounds. The expropriators are expropriated'. Moreover, their expropriation is hastened by their own acts.

The common ground between Marx and Keynes seems to be expanding. Their preoccupation with the philosophy of history has a very practical purpose: to give them a handle on the problems of the decline of capitalism. They agree on the layout of the battlefield for the class struggle of their epoch, they also agree with regard to the origin of the troops deployed, irrespective of the position each one reserves for himself regarding those troops. In broad lines they coincide in the diagnosis of the class-nature of bourgeois society, the revolutionary possibilities implicit in it. In addition to the acceptance of the pre-determined historical transience of the capitalist system, the sequence inside capitalism of an early, progressive era of uninhibited economic growth, succeeded by an era of economic malfunction and terminal decline, outlined by Keynes, is also strongly reminiscent of the basic explanatory scheme of historical materialism proposed by Marx. So is also Keynes's emphasis on rapid accumulation, implemented by means of the strengthening of private property – the establishment, in a manner peculiar to his own theorizing, of a correspondence principle between the form of ownership and the character of economic activity.

But there are also significant differences. Capitalists in Keynes tend to dig their own graves not because, as in Marx, they remain true to themselves, not because they press on regardless of anything else with capital accumulation, but because they stop acting in character, they start dissipating in excessive consumption what should have been invested. Mainly, however, there is in Keynes an emphasis on psychological forces which ill accords with the technological determinism of a lot of standard Marxist approach to social analysis. This emphasis will lead Keynes eventually into a prescription for social change which diametrically opposes, while in important respects mirroring, the revolutionary project favoured by Marx. In the end it is this, more than anything else, which makes Keynes a Bourgeois Marxist.

3. PSYCHOLOGISM VERSUS DETERMINISM

Marx sees the relations of ownership, in any economic system throughout history, as the necessary effect of the stage of development reached by the material forces of production of humanity; this effect is only secondarily influenced by other factors. Keynes sees the relations of ownership in capitalism as the outcome of a certain psychology, peculiar to a given historical epoch, a specific civilization and a specific continent:

> For a hundred years the system worked, throughout Europe, with an extraordinary success and facilitated the growth of wealth on an unprecedented scale. To save and invest became at once the duty and the delight of a large class. The savings were seldom drawn on and, accumulating at compound interest, made possible the material triumphs which we now all take for granted. The morals, the politics, the literature and the religion of the age joined in a grand conspiracy for the promotion of saving. God and Mammon were reconciled. Peace on earth to men of good means. A rich man could, after all, enter into the Kingdom of Heaven – if only he saved. A new harmony sounded from the celestial spheres. It is curious to observe how, through the wise and beneficial arrangement of Providence, men thus do the greatest service to the public, when they are thinking of their own gain, so sang the angels. (Keynes, 1972, p. 62)

But if psychology is fundamental, is there anything more fundamental than psychology? Marx has given one famous answer to this. The mode of production of material life conditions the social, political and intellectual life process in general. It is not the consciousness of men that determines their being; their social being determines their consciousness. On occasion Keynes's versatility brings him very close to the same view:

> Shakespeare, like Newton and Darwin, died rich … But whether or not Pope is right that Shakespeare:
>
> For gain not glory winged his roving flight
> And grew immortal in his own despite
>
> his active career chanced to fall at the date of dates, when any level-headed person in England disposed to make money could hardly help doing so. 1575 to 1620 were the palmy days of profit – one of the greatest 'bull' movements ever known until modern days in the United States … – Shakespeare being eleven years old in 1575 and dying in 1616. I offer it as a thesis for examination by those who like rash generalisations, that by far the larger proportion of the world's greatest writers and artists have flourished in the atmosphere of buoyancy, exhilaration and the freedom from economic cares felt by the governing class, which is engendered by profit inflations. (Keynes, 1971b, p. 137, footnote 3)

Applied to works of art or poetry, most Marxists would find Keynes's materialism a bit too simplistic, too reductionist, reminiscent of Zhdanov's ukases on Socialist Realism. Remarkably, his philosophical materialistic enthusiasms do not reach out to encompass the interplay between forces and relations of production he does perceive – otherwise how could he assert the optimality of the bourgeois regime to the accumulation of real wealth – but he steers clear of the determinist idea of any necessary correspondence.

In fact, Keynes's psychological approach to the economy inverts the main Marxist chain of causation, which runs from the forces to the relations of production, replacing it with the secondary chain, of some importance also in Marx, which runs from the relations to the forces. In Keynes, the growth of the forces of production can claim no primacy whatsoever over the structure of the relations of production. The origin of property relations is essentially psychological and contractarian, although the social contract in question is an unequal and mostly a tacit one, mainly shaped by custom. In their turn, property rights and the spirit in which they are exercised, may either accelerate or decelerate the development of material productive forces but they can never be overtaken by them and become their 'fetters' in the Marxist sense, because the growth of the forces of production is not fuelled by any autonomous dynamism of its own.

Consequently, a revolution against the system of property, as distinct from one against injustices of distribution associated with it, can never acquire an economically justified character. Its destructive action can never release any pent-up production forces, because none exist in a state of suspended animation. It also follows, however, that a revolutionary upheaval threatening the relations of ownership may arise quite independently of any pressure from the sphere of the forces of production. The possibility of a revolution not arising from the needs of material development of society, one of purely psychological or other origins, is very relevant to the Keynesian approach.

The implications of this theoretical choice are crucial indeed. Based on psychological rather than material conditioning, ownership relations, together with the economy which stands on them, become vulnerable to psychological shocks, notorious for their randomness. Even the Great War, a shock of major proportions, had nothing preordained about it in the conditions of economic life. It follows that there was nothing inescapable about the downfall of the system which the War had threatened to cause. Capitalism's life had not exhausted its natural term – it had not, in 1914, made the accumulation of capital perfect, it had not yet produced the solution of the economic problem of mankind – nor had it been caught up in any insoluble internal economic contradictions either. An accident happened to it on its way to the fulfilment of its historic role. It was a severe accident, the system might never recover from the attendant dislocations. But, given its essentially psychological nature, it was also possible that the illness might respond to psychological treatment. Keynes would endeavour to prescribe a cure.

No prescription of such kind could ever be effective in the eyes of Marx. Capitalism was incapable of solving the economic problem of mankind; it could only prepare the ground for the solution. At some point it would have to be got rid of in order, exactly, for the solution to go ahead. Any systematic malfunction observed in the relations of capitalist ownership could only have one explanation: from forms of development of the production forces these relations had already turned into their fetters. Without that, no psychological shock, no matter how severe, could have seriously jeopardized the existence of the system. Given that, no amount of psychological treatment, no matter how drastic, could ever save it. To these principles Lenin's theory of imperialism added that the origin of world wars, far from being accidental or rooted in human irrationality, had to be sought in the severe contradiction between forces and relations of production in modern capitalism.

It does not follow that social psychology became irrelevant to the Marxist project. It was in the aims and the mode of psychological operation that Marx differed from Keynes. In the belief that the capitalist system was doomed on material grounds, Marx would deploy psychological techniques in order to speed up its replacement with a more advanced form of social organization. Trusting the revolutionary potential of the working class he strove to wrench them out of the ideological thraldom, in which the ruling ideas of the ruling class held them. They had to learn that a great role of positive social leadership lay ahead for them. No more ignorance or cajoling 'by custom, convention or authority', no more 'double-bluff or deception' could be allowed to go unchallenged. In the workers there lay hidden not only destructive but also creative forces and, seeing a use for both, Marx endeavoured to move the working class to action by making them conscious of their positive historic mission, as he defined it. His ambition was to make the workers class conscious, Keynes's fear was that they might become bluff-conscious. Keynes was capable of perceiving only the destructive potential that an ideological unshackling of the proletariat might unleash. 'Thus the bluff is discovered; the labouring classes may not be willing to forgo so largely …' consequently capital accumulation might come to a disastrously premature end because, outside the bourgeoisie, who else would accumulate?

4. THE GREAT CAPITALIST CLASS

It is, admittedly, difficult to imagine a social class more dynamic and creative than the modern bourgeoisie:

> The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations put together. Subjection of Nature's forces to man, machinery, application of chemistry to industry and agriculture, steam navigation, railways, electrical telegraphs, clearing of whole continents for cultivation, canalisation of rivers, whole populations conjured out of the ground – what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour? (Marx and Engels, 1976, Vol. VI, p. 489)

Many a bourgeois Marxist has fallen in a trance over this dithyrambic hymn, the one part of Marx's writings that they unreservedly embrace, while resenting his very next move, the elevation of the working class to the place of natural successors of the bourgeoisie in the role of social leadership. Marx's choice would for ever remain incomprehensible to Keynes: 'How can I adopt a creed which, preferring the mud to the fish, exalts the boorish proletariat above the bourgeois and the intelligentsia who, with whatever faults, are the quality in life and surely carry the seeds of all human advancement?' (Keynes, 1972, p. 258)

The boorish proletariat! How very remiss of them not to have cultivated their taste and their intellect at Eton and King's. Yet, this social arrogance, together with the genuine, deeply felt pride in his own class, were instrumental in allowing Keynes – free of the inhibitions of an upstart or the regrets of a renegade – to take the full measure of the fall of his contemporary bourgeoisie from the pinnacle of their nineteenth century achievement. Having spent most of his mature life in what he described as 'the dead season of our fortunes', he followed upon Marx's admiring flourish with a rather sad coda of his own:

> We are thus faced in Europe with the spectacle of an extraordinary weakness on the part of the great capitalist class, which has emerged from the industrial triumphs of the nineteenth century, and seemed a very few years ago our all powerful master. The terror and personal timidity of the individual of this class is now so great, their confidence in their place in society and their necessity to the social organism so diminished, that they are the easy victims of intimidation. This was not so in England twenty-five years ago, any more than it is now in the United States. Then the capitalists believed in themselves, in their value to society, in the propriety of their continued existence, in the full enjoyment of their riches and the unlimited exercise of their power. Now they tremble before every insult; – call them pro-Germans, international financiers, or profiteers, and they will give you any ransom you choose to ask not to speak of them so harshly. They allow themselves to be ruined and altogether undone by their own instruments, governments of their own making, and a press of which they are the proprietors. (Keynes, 1920, pp. 222–3)

Keynes does not stop to consider whether the capitalist class, being mere instruments of his 'double bluff', merited the high-sounding title of 'great' or the unconditional attribution to them of all industrial triumphs of the nineteenth century. In the vertiginous rise of the industrial might of humanity, characteristic of that epoch, he perceived both the historical mission of the bourgeoisie and the social justification of their privileges. The idea that even the position achieved by 'the great capitalist class' in the industrial revolution might have owed more to length of purse than to greatness of genius, was a Marxist heresy which never occurred to him. Extremely perceptive, on the other hand, of the pertinence of the process of money-making to the historical hegemony of the bourgeoisie, he became very worried about the corruption of money, caused by the Great War:

> Lenin is said to have declared that the best way to destroy the Capitalist System is to debauch the currency … As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery. Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. (ibid, p. 220)

Keynes's efforts to come to grips with the problem of inflation in the early 1920s constitute one of the turning points of his intellectual development. From the problems of money he passes on to the problems of the money-makers as a class, in order to emerge with the astounding conclusion of rejecting money, in order to save the bourgeoisie.

5. THE PATHOLOGY OF MONEY

Keynes perceives inflation as far more potent a threat against the survival of the capitalist regime than the mere dissipation of investment potential ('the labouring classes may be no longer willing to forgo so largely, and the capitalist classes … may seek to enjoy more fully. …') implicit in an upsurge of consumption. Equivalently, he comes to recognize the internal distortions and in-fighting among sections of the bourgeoisie as potentially far more dangerous than the out-fighting with the workers. Uppermost in his mind becomes the element of unjustified enrichment of entrepreneurs – typically owners of large appreciating stocks of real goods and debtors of large depreciating sums of money – which inflation entails. Money-making he regards as legitimized, therefore capable of serving the proper interests of the bourgeoisie, only in so far as it represents a process of accumulation of real capital, real economic growth, moving in parallel with and dependent on the money process. In normal times the psychology of the entrepreneur, his creative instincts, will guarantee the coincidence of the two processes. In abnormal times his aggressive instincts will take the upper hand, leading to the opposite result. The ultimate, most pernicious effect of inflation is exactly in this psychological unhinging of the businessman:

> Amidst the rapid fluctuations of his fortunes [the businessman] loses his conservative instincts, and begins to think more of the large gains of the moment than of the lesser, but permanent, profits of normal business. The welfare of his enterprise in the relatively distant future weighs less with him than before, and thoughts are excited of a quick fortune and clearing out. His excessive gains have come to him unsought and without fault or design on his part, but once acquired he does not lightly surrender them, and will struggle to retain his booty. (Keynes, 1972, p. 68)

Of course he will. He is only human. But in seizing the chance of easy enrichment through inflation he slips into dereliction of his historical mission, the promotion of industrialization and progress, and ends up damaging his own social legitimacy:

> In his heart he loses his former self-confidence in his relation to society, in his utility and necessity in the economic scheme. He fears the future of his business and his class, and the less secure he feels his fortune to become the tighter he clings to it. The business man, the prop of society and the builder of the future, to whose activities and rewards there has been accorded, not long ago, an almost religious sanction, he of all men and classes most respectable, praiseworthy, and necessary, with whom interference was not only disastrous but almost impious, was now to suffer sidelong glances, to feel himself suspected and attacked, the victim of unjust and injurious laws – to become, and know himself half guilty, a profiteer. (ibid, p. 69)

Socially-rooted insecurity, the result of concrete historical developments, will hold the entrepreneur back from investing, not the pseudo-psychology of the individual's propensity to invest arising, in a timeless manner, out of mechanistic statements about the marginal efficiency of capital, as so many retailers of Keynes's thought have wished us to believe. Nor is the one-dimensional psychology of the single individual or of one social stratum in isolation which preoccupies him; he seeks out the interplay of emotions inside and across social classes. The study of inflation, the pathology of money, leads Keynes to the pathological anatomy of the spirit of bourgeois society; he becomes a kind of economic psychoanalyst of capitalism. He no longer views the 'great capitalist class' as one homogenous body, presenting a united front to third parties. He discovers its internal splits, the importance of in-fighting among its factions. In his 1923 Tract for Monetary reform, exactly in connection with his study of inflation, he first introduces the distinction between an 'investing class' (the savers) and a 'business class' (the entrepreneurs) having opposite interests; a distinction destined to become so significant in his later work.

In itself, the distinction as such is nothing new in Political Economy. With its origins in Turgot, it is restated by J. B. Say, it reappears in Ricardo. In them it is on the whole presented as a more or less unproblematic instance of division of tasks amongst the economically ruling strata of society, some saving, some providing finance, some deploying entrepreneurship. Marx is possibly the first to have grasped the full disruptive potential of this division. In his view it launches the 'transformation of the actually functioning capitalist [Keynes's business class] into a mere manager, administrator of other people's capital, and of the owner of capital into a mere money capitalist [the investing class].' For Marx, this development gives rise to '…a new financial aristocracy, a new variety of parasites in the shape of promoters, speculators and simply nominal directors; a whole system of swindling and cheating by means of corporation promotion, stock issuance, and stock speculation. It is private production without the control of private property.' A kind of irresponsibility begins to spread among the 'business class':

> The credit system appears as the main lever of over-production and over-speculation in commerce solely because the reproduction process, which is elastic by nature, is here forced to its extreme limits, and is so forced because a large part of the social capital is employed by people who do not own it and who consequently tackle things quite differently than the owner, who anxiously weighs the limitations of his private capital in so far as he handles it himself. (Marx, 1972, p. 439)

This irresponsibility, which in Marx afflicts production itself through speculative operations, is admittedly not the irresponsibility of an inflationary epoch, when extra money is made without any additional productive effort. It is not the kind of profiteering that frightened Keynes in the early 1920s. It belongs, however, to the same family of phenomena. Inflation would not have been able to ravage the post-war economy so extensively without the prior slow transformation of economic relations which placed at the disposal of a minority of active capitalists vast sums of money belonging to a majority of passive capitalists:

> The Capital itself, which a man really owns or supposed to own in the opinion of the public, becomes purely a basis for the superstructure of credit … All standards of measurement, all excuses more or less justified under capitalist production, disappear here. What the speculating wholesale merchant risks is social property, not his own.
> Equally sordid becomes the phrase relative to the origin of capital to savings, for what he demands is that others should save for him … The other phrase concerning abstention is squarely refuted by his luxury, which is now itself a means of credit. Conceptions which have some meaning on a less developed stage of capitalist production, become quite meaningless here. (ibid, p. 439)

These potential effects of changes, which Marx was able to detect below the surface of economic and social reality in the late nineteenth century, broke out into the open as a result of post-war inflation in the twentieth. To the profiteering of the entrepreneurs Keynes was soon able to add the excessive claims of financiers who shackled enterprise and to observe how internecine antagonisms between the 'investing' and the 'business' class, could spill over to their relations with labour, leading to a possible social threat:

> The sight of this arbitrary rearrangement of riches [via inflation] strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, [The 'business class'] beyond their

> deserts and even beyond their expectations or desires, become ‘profiteers’, who are the object of the hatred of the bourgeoisie, [i.e. of the ‘investing class’] whom the inflationism has impoverished, not less than of the proletariat. (Keynes, 1920, p. 220)

As to the workers, they may begin raising questions far more dangerous than the moderate increase of their capacity to consume during the war:

> No man of spirit will consent to remain poor if he believes his betters to have gained their goods by lucky gambling. To convert the businessman into a profiteer is to strike a blow at capitalism, because it destroys the psychological equilibrium which permits the perpetuance of unequal rewards. The economic doctrine of normal profits, vaguely apprehended by every one, is a necessary condition for the justification of capitalism. The business man is only tolerable so long as his gains can be held to bear some relation to what, roughly and in some sense, his activities have contributed to society. (Keynes, 1972, p. 69)

The psychological equilibrium of the double-bluff has come under severe strain. A bluff-conscious proletariat is not such a harmless animal as a bluff-unconscious one. It may develop revolutionary aspirations. Faced with the sheer unproductive profiteering of the other side, the revolutionary spirit may acquire even an intellectual respectability. No compelling historical law dictates that capitalist institutions become at some stage materially counterproductive, necessitating a social revolution to clear the way for progress. If, however, it so happens that they do become such, their mutation upsets society’s sense of distributional justice. Keynes sees no point in a revolution against stubborn economic realities: ‘Against political tyranny and injustice Revolution is a weapon. But what counsels of hope can revolution offer to sufferers from economic privation, which does not arise out of the injustice of distribution but in general?’ (Keynes, 1920, p. 277). But if the doctrine of justified normal profits suffers a collapse, if under changed circumstances analytical reason becomes compelled to install in its place a doctrine of exploitation, – what then?

6. PROFITS, EXPLOITATION AND PROGRESS

To the extent that the Great War with its disastrous aftermath receded in time, while the cataclysms semi-predicted in the *Economic Consequences of the Peace* failed to materialize, Keynes’s fears of a breakdown of the capitalist order also began to fade. Was it not possible that he had overestimated the likelihood of a disaster? Why not? Keynes was capable of accepting such mistakes graciously. He was far too committed a man of action and a positive thinker to resist the promise of better-than-expected developments. It was in a more relaxed mood that he settled down to compose a magnum opus about the workings of the capitalist economy.

Money would, once again, dominate the centre of his interest but no longer mainly in its pathological, inflationary aspects. While many of his previous writings concentrated on the pathology, the *Treatise on Money* would focus on the physiology of money, consequently on the role played by the bourgeoisie, the money-makers, under normal conditions in the economy. Concern with profiteering would yield pride of place to a sober study of profit but, even in the more sedate world of the *Treatise on Money*, the primacy of the real over the money economy and the importance of class analysis would remain paramount.

For Marx, the essence of class relations in the capitalist economy can be summed up in the appropriation, without counterpart, of the workers' surplus-product by the bourgeoisie not directly – as under slavery of serfdom – but indirectly, through the extraction of surplus-value by means of the market mechanism. Money profit is the form of surplus-value treated by Marx as basic; he derives from it rent, interest, entrepreneurial profit and even taxation as subsidiary cases.

Money-making, the process by which money generates more money is, therefore, as central in Marx as in Keynes, if not more so. The labour theory of value, the doctrine that the exchange value and ultimately the money value of goods represents the expenditure of human labour in the production of these goods, offers one very effective way of linking profit and exploitation: money grows in the process of money-making (of selling goods for profit) because labour has been added to raw materials, so that their value has increased in the course of producing the final product before its sale. Workers, however, are paid for only part of the increase, the rest of it accrues gratis to their employers.

This is a central theorem which, in the language – adequate to it – of the labour theory of value, makes an important point. The labour theory of value suffers from many failings but it has at least one advantage: it hammers into the mind the idea that money does not grow on trees. And yet, in many cases, money appears to be doing exactly that – to be growing on trees. Profit often appears to be made through transactions that have no reference to the production process whatsoever, a merchant buys a stock of goods and resells it to someone else for profit, without even so much as moving the goods from the warehouse. Where is the influence of production and the role of labour in that?

To begin making the labour theory of value and surplus-value (profit) plausible, this stumbling block has to be cleared out of the way. All cases in which profit is patently made merely from activities of buying and reselling must be shown as non-essential, even misleading, on the fundamentals of a mature capitalist economy and as a non-basic, if not a pathological phenomenon.

Marx's technique for achieving this was to argue that on each occasion, where a case like that occurred, the intermediary, the merchant, must have either bought the goods at below their value and sold them at their value or bought them at their value and sold them above their value. Either way the merchant himself benefits, but someone else, the person standing at the beginning of the C–M–C (commodity–money–commodity) chain or the person standing at its end is making a loss; the former because he sold below value, the latter because he bought above value. Take all participants in the chain of transactions together: individual profits and losses cancel out. The participants in the market cannot become collectively richer by overcharging one another. It follows either that aggregate profit is identically zero – in which case the growth of real wealth in society will not be reflected in any aggregate monetary magnitude – or, if there is positive profit (surplus value) it must have arisen outside the sphere of exchange, the sphere of circulation of commodities, in the sphere of production, where exploitation of labour actually takes place.

Keynes had no primary interest in a labour theory of value as the basis of a theory of exploitation. To the extent that he had spoken about it – always without uttering the terrible 'E' word – in *The Economic Consequences of the Peace*, he had cast his statements in terms of physical product; he spoke of the extraction of surplus-product, not of surplus-value. In the *Treatise on Money*, translating exploitation from physical into value terms was not one of his main concerns either. What chiefly interested him was to show that, in the normal case, increases in monetary wealth had necessarily to be associated with corresponding increases in the real wealth of society. This was no mere technical point with him; it was part and parcel of his belief in the creative social function of the bourgeoisie. Confronted with the apparent possibility of parasitic enrichment, he adopted a strategy very similar to Marx's; he set out to show that in the aggregate no monetary surplus, no monetary saving, is possible where no investment takes place:

> That saving can occur without any corresponding investment is obvious, if we consider what happens when an individual refrains from spending his money income on consumption … [T]he savers are individually richer by the amount of their savings, but the producers of consumption goods, who have sold their current output at a lower price than they would have got if the savings had not taken place, are poorer by an equal amount. Thus in such circumstances the saving, instead of resulting in an increase of aggregate wealth, has merely involved a double transference – a transference from the savers to the general body of consumers, and a transference of wealth to the savers from the general body of producers, both total consumption and total wealth remaining unchanged. (Keynes, 1971a, p. 156)

In their different contexts Marx and Keynes are saying basically the same thing: from the ordinary circulation of commodities only so much value (so much money) can be withdrawn in the aggregate as was originally put in, no more. Individuals may, but the economy as a whole cannot enrich itself by merely rearranging the size or pattern of money flows among its members. That includes the time-pattern of flows, as Keynes was particularly clear in insisting. Saving, which consists of breaking the exchange circuit 'commodity–money–commodity' (C–M–C), at the M link – withdrawing money after a sale has been concluded and sitting on it, not throwing it back into circulation to effect a further purchase – on its own will not add one little atom of wealth to the aggregate amount. Mere 'waiting', that great mainstay of the Austrian theory of capital, is totally ineffective as a source of new riches. For aggregate wealth to increase, funds have not only to be returned to circulation, they must be invested in production, the unique live source of social enrichment.

Investible funds have themselves to arise somewhere; they no more grow on trees than money does. The closed circuits of circulation cannot generate additional investment funds in the aggregate. Production can. In the context of capitalistic institutions of property, a substantial part of the product is withdrawn from workers' consumption and made available to bourgeois entrepreneurs. That much Keynes had already known since the *Economic Consequences of the Peace* in 1920. The new element in the *Treatise on Money* is the addition of a monetary mechanism, whereby the extraction of surplus product is made consistent with the institutions of a free market economy. The mechanism is nothing else but profit inflation. Prices run ahead of money wage costs so that the real wage falls and profits inflate; extraction of surplus-product becomes extraction of surplus-value.

Never had this transfer been more significant than at the beginnings of the capitalist era, in the period described by Marx as the epoch of 'primitive accumulation'. Keynes has also identified a primitive accumulation epoch, chronologically close to that of Marx:

> Putting it shortly, we may say that profit inflation in Spain lasted from 1520 to 1590, in England from 1550 to 1650, and in France from 1530 to 1700 … Never in the annals of the modern world has there existed so prolonged and so rich an opportunity for the business man, the speculator and the profiteer. In these golden years modern capitalism was born. At whose expense? [W]ages in France and England … were not rising comparably to prices … and the greater part of the fruits of the economic progress and capital accumulation of the Elizabethan and Jacobean age accrued to the profiteer rather than to the wage earner. (ibid, pp. 140–41)

Is this not the description of a rather extra-ordinary epoch, an explanation of the origins but not of the current reality of capitalism? Not in the least. Every period of active investment, not just the original one, is characterized by an inflation of profits and a corresponding squeeze on real wages: ‘A relatively low level of real wages is necessarily a characteristic of a period of profit inflation, because it is partly at the expense of current consumption that the abnormal growth of capital which accompanies a period of profit inflation is derived.’ (ibid, p. 144)

Is this not the ‘inflationism’ against which Keynes thundered in the early 1920s? Not at all. When profits from the profit inflation are used for productive investment, profiteering is redeemed. The great capitalist class is fulfilling its historic mission and even the exploited proletariat, whether delighted or not, may come off better:

> Thus, if we consider a long period of time, the working class may benefit much more in the long run from the forced abstinence which a profit inflation imposes on them than they lose in the first instance in the shape of diminished consumption. Moreover, the amount of the diminution in their current consumption corresponding to a given increment of capital wealth is no greater if it comes about in this way than if it is due to voluntary saving; it is only the distribution of the resulting wealth which is affected, and, so long as wealth and its fruits are not consumed by the nominal owner but are accumulated, the evils of an unjust distribution, may not be as bad as they appear. (ibid, pp. 144–5)

The boorish proletarians! That much they deserve. The main thing is for accumulation of capital to continue uninterrupted, for its rate to be as far as possible maximized. How fast depends critically on the rate of abstinence of workers: the smaller their consumption as a proportion of total output, the greater is the investment potential, the faster the rate of growth of capital, the speedier the increase of total output. Workers’ consumption is but a proportion of total output. A small volume of initial consumption, allowing a higher percentage of output to be saved and invested and output to grow fast will, sooner or later, overtake in absolute terms consumption in a different economy, where workers started consuming a higher proportion of total output initially, but they restricted investment potential and slowed down growth.

The rigorous theory behind this proposition was supplied by the other Cambridge genius of the 1920s, Frank P. Ramsay, a contemporary with whose work Keynes was fully familiar. The common sense of the proposition consists of the observation that a smaller part (consumption) of a faster growing whole (total output) will eventually become larger than a larger part of a slower growing whole. In that sense there is indeed a point in time in the future when the relatively more deprived workers of economy one will become better off than the less deprived of economy two. A more rapacious bourgeoisie, provided it maximizes investment, turns out in the fullness of time, to be more worker-friendly than a less grubbing one. Such are the surprises of the double bluff. The bourgeois is a bourgeois, for the benefit of the working class.

Should society accept persistently higher present sacrifice in exchange for higher future affluence? Given that for Keynes society, under conditions of a healthy and robust capitalism, worked not ‘for the small pleasures of the day’ (making sure, of course, these were not denied to the likes of Lady Ottoline Morrell, Violet Asquith and her second husband or to the Bloomsbury circle of intellectuals) but for ‘progress’, the answer was obvious.[3]

So, by the end of that staggering decade, the 1920s, things seemed to be somewhat settling down. Workers were back in the trough of exploitation, capitalists back in their accumulation ‘for progress’. The delicate psychological equilibrium on which the functioning of the capitalist system depended seemed to have stood the various tests of war and post-war:

> The inherent stability of the European economic systems has responded with a rapidity and completeness that could not have been anticipated. Great Britain has troubles of her own due to pride and precipitancy in her financial and currency policies, as in her reversion to the old gold standard. But all Europe has stable currencies. The devastated areas are entirely restored. The standard of life of German working men is somewhat higher than it was before the War. (Keynes, 1972, Vol. XI, p. 366)

Après la pluie beau temps. But then, suddenly and without warning on 29 October 1929, the thunderbolt out of the blue sky struck Wall Street, throwing the capitalist world into its deepest depression ever and scattering for the rest of his life to the four winds any temptation to bourgeois complacency, nascent in the mind of Keynes.

7. THE DEMONOLOGY OF MONEY

Keynes’s most surprising response to the onset of the Depression of the 1930s consists in a resounding reaffirmation of his belief in capitalism; in its irreplaceability as a phase, transient but positive and essential, in the process of human development. His essay *Economic Possibilities of our Grandchildren* is Keynes’s proclamation of faith, in the midst of the severest test the system had to undergo in peacetime conditions. No trace of phillistinism, no sign of bourgeois complacency, mars its high spirit. Behind the mask of an apparently facetious style it launches one of the most robust, militant defences to issue from the pen of a bourgeois thinker in the last century.

At the same time it is possibly the most ambiguous, most deeply divided against itself, text Keynes ever wrote. The tension between the past and the future of his thinking reaches, in these few pages, nearly breaking point; the cocoon of his erstwhile theoretical perceptions is almost rent asunder for the thinking of the General Theory epoch to come strutting forward.

For one thing, it is the most historical–materialistic of Keynes's writings. It begins with an overview of the progress of material production over the ages, starting with what anthropologists nowadays describe as the neolithic industrial revolution. The increase of productivity is made if not into the motive force, certainly into the unifying element of the entire history of mankind. The whole long process, covering thousands of years, is seen to culminate in the vertiginous growth of the forces of production under bourgeois rule. No bemoaning of the decline of 'the great capitalist class' finds any place here. In terms strongly reminiscent of the relevant passage in Marx's *Manifesto of the Communist Party*, Keynes writes about the pinnacle of bourgeois achievement:

> From the sixteenth century with a cumulative crescendo after the eighteenth, the great age of science and technical inventions began, which since the beginning of the nineteenth century has been in full flood – coal, steam, electricity, petrol, steel, rubber, cotton, the chemical industries, automatic machinery and the methods of mass production, wireless, printing, Newton, Darwin, and Einstein, and thousands of other things and men too famous and familiar to catalogue. (Keynes, 1972, p. 324)

The success of this enormous human enterprise was based on persistent accumulation of capital. 'The growth of capital has been on a scale which is far beyond a hundred-fold of what any previous age had known'. This presupposed the division of society into hegemonic rich and industrious poor but its inherent tendency was to reach a stage at which that division itself would be overcome:

> All this means in the long run that mankind is solving its economic problem. I would predict that the standard of life in progressive countries one hundred years hence will be between four and eight times as high as it is today. There would be nothing surprising in this in the light of our present knowledge. It would not be foolish to contemplate the possibility of a far greater progress still. (ibid, pp. 325–6)

In such conditions, not only further capital accumulation – hence the division of society into rich and poor – becomes unnecessary, even the need to work at all tends to vanish:

> We shall do more things for ourselves than is usual with the rich today, only too glad to have small duties and tasks and routines. But beyond this, we shall endeavour to spread the bread thin on the butter – to make what work there is still to be done to be as widely shared as possible. Three hour shifts of a fifteen-hour week may put off the problem for a great while. (ibid, pp. 328–9)

Whatever the principles of distribution in such circumstances, they obviously can no longer be the capitalist ones. Capitalism, through its very material success, will have dug its own grave: a conclusion fully consistent, virtually identical as far as it goes, with those of Marx. Both authors share forecasts of generalized affluence and abolition of labour, both envisage the prospect as an unprecedentedly liberating one for humanity. In Keynes, with his deeper psychological penetration, his greater caution, sometimes even suspicion of human nature, a certain fear of freedom, not to be met with in the greater enthusiast Marx, does creep in. 'Yet I think with dread of the readjustment of the habits and instincts of the ordinary man, bred into him for countless generations, which he may be asked to discard within a few decades'. But both are agreed that, to be feared or not, the achievement of freedom depends on a prior breakthrough of work into unheard-of levels of productivity:

> The actual wealth of society, and the possibility of constantly expanding its reproduction process, therefore, do not depend upon the duration of surplus-labour, but upon its productivity … In fact, the realm of freedom actually begins only where labour which is determined by necessity and mundane considerations ceases; thus in the very nature of things it lies beyond the sphere of material production. Just as the savage must wrestle with Nature to satisfy his wants, to maintain and reproduce life, so must civilized man, and he must do so in all social formations and under all possible modes of production. With his development this realm of physical necessity expands as a result of his wants; but, at the same time, the forces of production which satisfy these wants also increase … But it nonetheless still remains a realm of necessity. Beyond it begins the development of human energy which is an end in itself, the true realm of freedom, which, however, can blossom forth only with this realm of necessity as its basis. The shortening of the working-day is its basic prerequisite. (Marx, 1972, p. 820)

The way forward to this radiant future passes, for both authors, through the vale of tears of capital accumulation by means of money-making. Why does money-making possess such dramatic effectiveness? It is rather surprising that neither Marx nor Keynes, so conscious both of them of the power of money, ever raised this question directly. Perhaps they considered it too elementary; alternatively they may have thought that their whole opus constituted essentially one big answer to that great unformulated question. Whatever the case, ample justification for a specific question of this kind does exist while elements of a specific answer can be found in various of their writings.

For Marx, no less than for Keynes, capital accumulation represented for the bourgeoisie an aim in itself, a target to be pursued in abstraction of everything else and in particular of consumption: 'Accumulate, accumulate. This is Moses and the prophets' – such was the battle-cry of the bourgeois in Marx. In this context, money possessed a quality altogether peculiar to itself; it could provide a single, homogeneous, tangible target for the capitalist to concentrate his abstract single-mindedness on. Moreover, to satisfy the requirement of unremitting continuity of the process of capital accumulation, money, at least in its healthy state, presented the additional advantage of non-fungibility; it was capable of preserving value and transferring wealth over time and from one generation to the next.

The presence of a suitable instrument for continuous accumulation may to some extent itself motivate the corresponding activity. But only to some extent. The real psychological motivation, the feeling of insatiability associated with the process, would remain unexplained. Insatiability could hardly be accounted for in terms of a need for physical wealth; in their purely physical form needs are satiable. Satiety would be the end of the accumulation process. There had to be something else about money, which made individuals feel they could never have enough of it, that they were constrained to go on accumulating it for ever.

Marx, steeped as he was in the tradition of Hegelian dialectics, sought an explanation or, perhaps, a rationalization, along the lines of contradictions, inherent in the very essence of the object of study. Given that it represents generalized purchasing power, money knew no qualitative limits to its effectiveness. For as long as his money lasted, its fortunate master was installed in a position of absolute sovereignty over the market. The whole universe of commodities, the whole world of human creation had to yield to him, since his money could be transformed into, could assume the concrete form of any commodity whatsoever. Even non-existent commodities could be conjured up out of nowhere, made upon order, provided he could describe his desires and be prepared to foot the bill. Technological impossibilities would still bound this expanding universe but from the point of view of the individual the universe would be so large as to have virtually no frontiers. Money would, therefore, confer, on its individual owner, an understandable feeling of omnipotence over goods, for as long, that is, as his money lasted.

Inevitably, the amplitude of the qualitative infinity would be marred by the restrictiveness of its quantitative finiteness. The money owner would obviously wish the qualitative aspect to prevail over the quantitative but, at any instant of time, or indeed within any finite period of time, resolving the contradiction according to his wishes would clearly be impossible. Over any finite period of time no infinite amount of money, no matter how desirable, could come into existence; there always had to be a budget constraint.

The only resolution of this conflict is to substitute the more realistic target of an infinite time series, consisting of finite terms, for the utopian aim of an instantaneously available infinite amount. Over time there is no limit; money is not fungible and time is endless. Thus, it is found that the character of money, its very 'nature', so to speak, carries within itself the motivation of making its own infinite accumulation a self-sustaining objective, an aim in itself. Add to this the theorem that money-making acquires a firm basis only when it operates through the production process, and the connection of the non-satiety of the need for money with the never-ending effort at accumulation of productive capital is established almost geometrically.

Such was the explanation of Marx, the scion and inheritor of Classical German philosophy. Keynes, whose philosophical predilections leaned towards a more direct kind of psychology, would probably have remained cold to such heavy dialectical bombardment of a psychological problem. An amateur of Freud rather than a devotee of Hegel, he chose to dissect the money motive (looking at it from the vantage point of its future rejection by humanity) as a manifestation of a kind of libido particularly powerful in the mind of the entrepreneur:

> Of course there will still be many people with intense, unsatisfied, purposiveness who will blindly pursue wealth – unless they can find some plausible substitute. But the rest of us will no longer be under any obligation to applaud and encourage them. For we shall inquire more curiously than is safe today into the true character of this 'purposiveness' with which in varying degrees Nature has endowed almost all of us. For purposiveness means that we are more concerned with the remote future results of our actions than with their own quality or their immediate effects on our own environment. The 'purposive' man is always trying to secure a spurious and delusive immortality for his acts by pushing his interest in them forward into the future. He does not love his cat, but his cat's kittens; nor, in truth the kittens, but only the kittens' kittens, and so on forward to the end of catdom. For him jam is not jam unless it is a case of jam tomorrow and never jam today. Thus by pushing his jam always forward into the future, he strives to secure for his act of boiling it an immortality. (Keynes, 1972, pp. 329–30)

To explain perseverance in a never-ending effort of capital accumulation Marx used the image of pursuit of infinite command over the material world of products, Keynes the more metaphysical one of chasing after a spurious immortality. They both had to implicate their money-maker in a chase after an eternally moving objective, simultaneously conquered and elusive; an objective incorporated in an addictive object, which rules its owner instead of being ruled by him. Otherwise they could make no sense of the drive for the accumulation of capital as an aim in itself, the activity which lies at the heart of the capitalist system. Marx went on from then to trace the wider historical repercussions of this apparently meaningless obsession:

> Except as personified capital, the capitalist has no historical value … And so far only is the necessity of his own transitory existence implied in the transitory necessity for the capitalist mode of production. But, so far as he is personified capital, it is not values in use and the enjoyment of them, but exchange-value and its augmentation, that spur him into action. Fanatically bent on making value expand itself, he ruthlessly forces the human race to produce for production's

> sake; he thus forces the development of the production powers of society, and creates those material conditions, which alone can form the real basis of a higher form of society, a society in which the full and free development of every individual forms the ruling principle. Only as personified capital is the capitalist respectable. (Marx, 1972, p. 592)

Marx, of course, meant ‘personified productive capital’. Keynes was less exclusive in his attribution of respectability. For a certain period of capitalism’s history, he attached positive value to the division of tasks, inside the bourgeoisie, between the money capitalists and the production entrepreneurs: ‘there grew up during the nineteenth century a large, powerful, and greatly respected class of persons, well-to-do individually and very wealthy in the aggregate, who owned neither buildings, nor land nor business, nor precious metals, but titles to an annual income in legal-tender money.’ (Keynes, 1972)

These persons were the specialists in saving, the money lenders, indulging in money-making in its purest form. As long as they acted in harness with entrepreneurs, their enormous power played an indispensable, beneficial role in the accumulation process. It was, therefore, essential that a proper balance be maintained between them and the entrepreneurs. Like all social equilibria in Keynes this one also was strongly psychological in nature. It had to be based on mutual esteem and respect by each one for the other side’s role in the economy. There had to be symmetry in the economic power between the two subdivisions of the bourgeois class but, unfortunately, their possibilities regarding money-making were not symmetrical. Entrepreneurs, active capitalists, in their capacity as investors, had only one way to make money beget more money: invest in production, make of production an end in itself. Financiers, on the other hand, had alternatives to lending for productive purposes: they could become financial speculators; they could become usurers ripping off the properties of distress borrowers; they could become, indirectly, via the public debt, tax-farmers. In any of these capacities they could make a lot of money, without contributing one little bit to capital formation.

One could think of various events capable of instructing money capitalists on the benefits of sterile speculation, hence pushing them into encroaching on productive capitalists and upsetting the psychological equilibrium between the two bourgeois groups. In the immediate Great War aftermath, instability of money seemed to Keynes to represent the most dangerous inducement:

> The individualistic capitalism of today, precisely because it entrusts saving to the individual investor and production to the individual employer, presumes a stable measuring of value, and cannot be efficient – perhaps cannot survive – without one.

> For these grave causes we must free ourselves from the deep distrust which exists against allowing the standard of value to be the subject of deliberate decision. We can no longer afford to leave it in the category of which the distinguishing characteristics are possessed in different degrees by the weather, the birth-rate, and the Constitution – matters which are settled by natural causes, or are the resultant of the separate action of many individuals acting independently, or require a revolution to change them. (Keynes, 1972, p. 75)

A great idea, brilliantly expressed but, perhaps, not comprehensive enough. Keynes seems to have overlooked here that the division of tasks between the individual investor and the individual employer is not all that watertight; the employer may turn himself into an investor, if abstaining from production and lending at interest becomes the more profitable operation. Therein lies the weakness of money-making as the driving force of capital accumulation; it is in the nature of money that it maintain the continuity of that process by continually interrupting it. The interruptions may become substantial, employment and accumulation may stop, a money panic may ensue among producers, without any improper behaviour on the part of financiers. Marx was, probably, the first analyst of capitalism to cover this aspect of money by a striking formulation:

> The function of money as the means of payment implies a contradiction without a terminus medius. In so far as the payments balance one another, money functions only ideally as money of account, … In so far as actual payments have to be made, money does not serve as a circulating medium … but as the individual incarnation of social labour, as the independent form of existence of exchange value, as the universal commodity. The contradiction comes to a head in those phases of industrial and commercial crises which are known as monetary crises. … Whenever there is a general and extensive disturbance [of the mechanism for clearing mutual debts] money becomes suddenly and immediately transformed, from its merely ideal shape of money of account, into hard cash. Profane commodities can no longer replace it. … On the eve of the crisis, the bourgeois, with the self-sufficiency that springs from intoxicating prosperity, declares money to be a vain imagination. Commodities alone are money. But now the cry is everywhere: money alone is a commodity. As the hart pants after water, so pants his soul after money, the only wealth. (Marx, 1967, pp. 137–8)

While his hart pants after money like that, so long as the money famine continues, the employer cuts back on production and unemployment rises. Subjecting merely the standard of value to rational planning will not solve that problem, before the whole economy is made subject to a similar regime. The contradiction Marx was speaking of, Keynes was to rediscover when he issued his exasperated cry in the *General Theory*:

> Unemployment develops … because people want the moon; – men cannot be employed when the object of desire (i.e. money) is something which cannot be

> produced and the demand for which cannot be readily choked off. There is no remedy but to persuade the public that green cheese is practically the same thing and to have a green cheese factory (i.e. a central bank) under public control. (Keynes, 1961, p. 235)

The difference now is that the deliberate decision of the public authorities will no longer be addressed at supporting the rationality of the bourgeoisie, through a policy of sound money, but at manipulating its illusions, through flooding the market with printed green cheese. Keynes has abandoned his effort to separate 'good' from 'bad', healthy from sick money, having realized that money is indissolubly both 'good' and 'bad'. Technically, inflation never ceases to be an issue with him but, at a deeper level, he becomes convinced that no real cure to the money illness is ever possible; society will have to accommodate itself to the dirty stuff as it finds it until, in the fullness of time, it abolishes money completely:

> When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful human qualities into the position of the highest virtues. We shall be able to dare to assess the money motive at its true value. The love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease. (Keynes, 1972, p. 329)

Throughout the decade of the 1920s Keynes managed to hold his growing resentment against the psychological influence of money separate from his technical study of monetary problems. Not much of his resentment (obvious in such texts as his 1925 *A Short View of Russia* or his 1927 *Clissold*) was allowed to feed into the *magnum opus* he was composing at the same time, the *Treatise on Money*. The crucial significance of his 1930 *Economic Possibilities of our Grandchildren* is that in it his new psychological insights are allowed to burst through and blend with his economics. That is what makes the text such a turning point in his intellectual development towards the *General Theory*.

However, in that text itself, Keynes is not yet ready to abandon his commitment to the old bourgeois ways. On the contrary, he reasserts his faith in them in a strikingly unflinching manner. It is as if he is holding fast out of fear lest his loyalty be swept away by the rising tide of his own thought. Having described the radiant future of humanity, after capitalism has finished its work and gone away (to the scrap-heap of history, as Marx would say), he adds:

> But beware! The time for all this is not yet. For at least another century we must pretend to ourselves that fair is foul and foul is fair, for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of economic necessity into daylight. (ibid, p. 331)

Fair is foul and foul is fair. The war-cry of the witches in Macbeth has haunted Keynes ever since his uncanny, poetic sensitivity picked it up amidst the hubbub of the diplomatic chatter in the smoke-filled rooms of negotiation of the Versailles Treaty.[4] In those days of his despair he had still managed to keep its cynical morality at bay. In the equally desperate days of 1930 he surrendered to its siren-call. There was no getting away from it, money was both foul and fair. It was fair by means of being foul and foul while doing fair work. The striving for money, an oppressive blind process, unconscious of its own destination should remain blind if it was to function effectively. Even after its secret had been discovered by science, society could do little else but pretend it did not know. To reap the benefits it must surrender to the process with its eyes closed.

How much credibility is there left in a psychological, a double-bluff theory of capitalism, if the players must go on pretending to be still taken in by the bluff even after the bluff has been called? Is not Keynes's desperate plea for a foulness, useful to an as yet uncompleted process of capital accumulation, a vindication in fact of historical materialism at its most deterministic? History is independent of men's will, of their knowledge, of their morality. For many Marxists that would be the end of the story. For Keynes it was not quite like that. Behind the brave face he was putting on the catastrophic events of the Great Depression, his mind was reaching out to radically new ideas, intended to relegate to oblivion the money-makers and all their works. But being an eminently responsible thinker, who felt the hegemony of his class under threat of immediate collapse, he did his best to discourage rejecting the Old, until he had something New to propose in its place. This probably explains his mechanistic defence of existing capitalist institutions even at the expense of his own psychological approach to social phenomena. But deep in his heart – standing poised at that moment between the old mentality of the class that claimed his loyalty and a new mentality which he aspired to build for them himself – Keynes resisted the pressure of objective events. Reluctant to throw his psychological method entirely to the winds, unable still, at the same time, to effectively resolve the dilemma oppressing his mind, he sought refuge in his own peculiar brand of utopia:

> The strenuous purposeful money-makers may carry all of us along with them into the lap of economic abundance. But it will be those peoples, who can keep alive, and cultivate into a fuller perfection, the art of life itself and do not sell them-

> selves for the means of life, who will be able to enjoy the abundance when it comes. (Keynes, 1972, p. 328)

Cultivate the art of life itself into a fuller perfection, refuse to sell one's life for the means of life and at the same time accept that fair is foul and foul is fair because useful. From what depths of despair could Keynes dredge up such an impossible prescription?

8. USE VALUE AND EXCHANGE VALUE

With the *Economic Possibilities of our Grandchildren,* the concept of a contradiction between the use-value and the exchange-value of commodities, one of the mainstays of Marxist economics, makes its entrance in Keynes's economics in a really grand manner. Keynes was subsequently to draw a large number of implications, psychological, economic even political from this crucial idea. In pursuit of spurious immortality, Keynes's capitalist for ever boils jam destined never to be eaten. It is not values in use and the enjoyment of them, but exchange-value and its augmentation that spur him on into action, enriching him materially but impoverishing him spiritually. 'The more you have the less you are', such was Marx's warning, unbeknowingly echoed by Keynes in a thousand voices. While fully acknowledging the incentive force of money-making Marx set against it, on the negative side, its morally corrosive effect on the capitalist:

> The expansion of value, which is the objective basis or the main-spring of the circulation M–C–M, becomes [the capitalist's] subjective aim, and it is only in so far as the appropriation of ever more and more wealth in the abstract becomes the sole motive of his operations, that he functions as a capitalist, that is as capital personified and endowed with consciousness and a will. Use-values must, therefore, never be looked upon as the real aim of the capitalist; neither must the profit on any single transaction. The restless never-ending process of profit-making alone is what he aims at. This boundless greed after riches, this passionate chase after exchange-value, is common to the capitalist and the miser; but while the miser is merely a capitalist gone mad, the capitalist is a rational miser. (Marx, 1967, Vol. I, pp. 152–3)

For Marxists, who in principle expect social morality to be split along class lines, the resolution of the dilemma presented by money appears easier. The 'semi-criminal, semi-pathological' propensity of loving money as a possession is apportioned to the bourgeoisie, while the healthy attitude towards money 'as a means to the enjoyments and realities of life' to the proletariat:

> [T]he humanity of the workers is constantly manifesting itself pleasantly. They have experienced hard times themselves and can therefore feel for those in trouble. … For them money is worth only what it will buy, whereas for the bourgeois it has an especial inherent value, the value of a god, and makes the bourgeois the mean, low money-grubber that he is. The working-man who knows nothing of this feeling of reverence for money is therefore less grasping than the bourgeois whose whole activity is for the purpose of gain, who sees in the accumulations of his money-bags the end and aim of life. (Engels in Marx and Engels, 1975, p. 420)

Keynes's analysis of capitalist mentality converges onto that of Marx, but the motivation of the two is very different. Marx simply denounces a state of affairs; he sees no reprieve for the capitalist from the vicious circle of money pursuit, Keynes writes in the hope of persuading the bourgeoisie to break the vicious circle. He wants the capitalist to reject capitalism.

Marxists assign the abolition of the domination of money to the workers, whom they consider psychologically well-prepared for the task. Few things, on the other hand, could be more distasteful to Keynes than the spectacle of social hegemony, in this crucial area, passing from the hands of his cherished educated bourgeoisie to the intolerable uncouth proletarians. At the same time, his whole penetrating intuition into the inter-war socio-economic situation was warning him that time was running out for the old system:

> The decadent international but individualistic capitalism, in the hands of which we found ourselves after the War, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous – and it doesn't deliver the goods. In short we dislike it and we are beginning to despise it. But when we wonder what to put in its place, we are extremely perplexed. (Keynes, 1982, p. 239)

Perplexed or not, 'we' have to acknowledge that the capitalism that we know is a regime unworthy of 'us', unworthy of the bourgeoisie. At some point during the 1920s, Keynes arrives at this striking conclusion. It hits him with the full force of a very personal revelation; it liberates his mind, it gives new wing to his thinking. He now feels able to reconcile loyalty to the class of his origin and allegiance, with criticism radical to the point of rejection, of the system that had made his class its fortunes. His remaining service to the bourgeoisie will be to show them how to abandon sterile money-making for the building of a system, still ruled by them, but dedicated to use, not to exchange-value:

> The nineteenth century carried to extravagant lengths the criterion of what one can call for short the financial results, as a test of the advisability of any course of action sponsored by private or by collective action. The whole conduct of life was made into a sort of parody of an accountant's nightmare. Instead of using their vastly increased material and technical resources to build a wonder-city, they built slums, because slums 'paid'. Even today we spend our time … in trying to

> persuade our countrymen that the nation as a whole would be richer if unemployed men and machines are used to build much needed houses than if they are supported in idleness. … We have to remain poor because it does not ‘pay’ to be rich. We have to live in hovels, not because we cannot build palaces, but because we cannot afford them. (Keynes, 1982, p. 241)

Keynes’s conversion to a use-value oriented economic activity, his decision to jettison the ‘strenuous purposeful money-makers’ even before capitalism had completed its historical mission, the perfect industrialization of production, reflects partly his exasperation with the morass of the 1930s. The collapse of production and capital accumulation during the Depression was manifestly caused by the breakdown of the money-making process. Industry would not have refused to produce if it could do so profitably or even, in many cases, merely break even; most private enterprise was paralysed by the prospect of sheer bankruptcy. Closing down bankrupt business, moreover, did not seem to have the anticipated healing effect on productive activity, familiar in the past. Not much spontaneous re-allocation of resources towards the more efficient industries appeared to be taking place; bankruptcies simply dragged more bankruptcies in their wake, in a seemingly unending omnivorous swirl. It looked as if the time-honoured rules of money-making had exhausted their potential; they offered no prospect to investment, or even to continuing production at normal levels. The rule of exchange value was becoming non-operational; Keynes was now to grant the thing he had so desperately resisted in the *Economic Possibilities for our Grandchildren*: that bourgeois relations of ownership had become an obstacle, a fetter *à la* Marx, to the growth of production forces: ‘Thus our argument leads towards the conclusion that in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it.’ (Keynes, 1961, p. 376)

The abstinence of the rich costs dearly in terms of interest payments, it throttles enterprise. Why should entrepreneurs have to overcome this additional obstacle, piled upon so many others? The lure of profit, supposed to motivate the strenuous money-makers, begins to appear to Keynes inadequate, as a source of incentive. The long wait for profit on new investment to materialize undermines the certainty of any strict financial calculation, thereby reducing the incentive power of prospective monetary gain. If we speak frankly, Keynes will protest, we have to admit that our basis of knowledge for estimating the yield ten years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London amounts to little and sometimes to nothing; or even five years hence (ibid, pp. 149–150). Without such knowledge, every act of investment is something of an act of faith, a leap in the dark, an exercise of spontaneous optimism flowing from the animal spirits of the entrepreneur. Money, the jam which one always boils without ever serving, is too weak a fare for animal spirits. Exchange value is dethroned from its high place in the investment process. Not the pursuit of spurious immortality, the attraction of real live things is what ultimately stimulates the animal vitality of spontaneous optimism. Animal instincts thrive on use-value: 'If human nature felt no temptation to take a chance, no satisfaction (profit apart) in constructing a factory, a railway, a mine or a farm, there might not be much investment merely as a result of cold calculation.' (ibid, p. 150)

With his new-found resolution of the social dilemma – how to maintain the bourgeoisie while rejecting capitalism – at hand, Keynes is now prepared to venture to extremes of criticism of market economies comparable to those of the Marxist agitators. It seemed always strange that the brilliant economist who was, at the same time, a convinced conscientious objector against the Great War, writing in an atmosphere charged with anti-capitalist pacifism, found opportunity to speak only about the economic consequences of the Peace but never about the economic causes of War. Was it his sense of responsibility to his class that restrained him from so heavy a condemnation? Keynes's social criticism was nothing if not responsible. He would never launch gratuitous accusations, and even justified ones he would scarcely utter if he had no remedy to offer. Given his fundamental re-orientation towards a use-value economy, however, he did have such remedies; consequently he felt confident to denounce the evil:

> War has several causes. Dictators and others such, to whom war offers, in expectation at least, a pleasurable excitement, find it easy to work on the natural bellicosity of their peoples. But, over and above this, facilitating their task of fanning the popular flame, are the economic causes of war, namely, the pressure of population and the competitive struggle for markets. It is the second factor, which probably played a preponderant part in the nineteenth century, and might again, that is germane to this discussion. (Keynes, 1961, pp. 381–2)

In the nineteenth century governments had to engage in foreign expansionism; they knew no better way of increasing trade and generating industrial employment for their teaming populations. Re-orientation on generating use-values at home – national autarky, to use Keynes's term – could do the same job in a superior way, without any longer the need for commercial conquests.

With Keynes's characterization of the causes of the war as economic, of the 'abstinence' of the rich as an obstacle to economic growth, and of the Depression as the end of an epoch, that of exchange-value – a determinism very similar to that of historical materialism seems to be taking hold of his thought. Yet, as an eminently activist thinker, he would have felt distinctly ill at ease in any framework imposing on him too deterministic a straightjacket. The Depression had for him, both an objective and a subjective side; it was a watershed not only in the performance of the economic mechanism but also in thinking about the economy. It did not mark the end of something which had been inevitable and the beginning of something else, equally inevitable; had thinking changed earlier, nineteenth century capitalism – the worship of the Moloch of War and Mammon of exchange value – might have been evitable:

> There was nothing which it was not our duty to sacrifice to this Moloch and Mammon in one; for we faithfully believed that the worship of these monsters would overcome the evil of poverty and lead the next generation safely and comfortably, on the back of compound interest into economic peace. Today we suffer disillusion, not because we are poorer than we were – on the contrary even today we enjoy, in Great Britain at least, a higher standard of life than at any previous period – but because other values seem to have been sacrificed and because, moreover, they seem to have been sacrificed unnecessarily. (Keynes, 1972, p. 242)

The correspondence of the forces and the relations of production had not, after all, been a necessary one, not even in the past. History could have been written in a different, more human style. Keynes was determined to set it written differently in the future. He prepared his attack methodically along a very wide front.

9. THE OPEN CONSPIRACY

Keynes's masterplan can be reconstructed to involve a three-pronged attack. First, the one powerful institution which had remained outside the domain of the market – the State – would be invited to reject exchange-value as a criterion for public economics. This would provide a starting point, a bridgehead of the new regime within bourgeois society. As a bridgehead for use-value it would be unable to hold out long, unless the mentality of the public was, meanwhile, itself reshaped in a parallel fashion. Such re-education of the bourgeois was to be the second move in Keynes's campaign. Finally, at a third stage, the transformed bourgeoisie would be invited to take over and run the State, in order to reshape the remaining institutions of social life. Equipped both with a power base, in the State, and a social base, in the bourgeoisie, the victory of the new ideas would be assured.

It was a project with all the makings of a grand political strategy, to be tested at the level neither of individuals nor of political parties but of whole integral social classes. If successful, it might reproduce a pattern of events analogous, in its class-power aspects, to that of the transition from the Middle Ages to the Modern epoch. In the same way that the nobility in England had been able to survive as a ruling class while leaving behind it the feudal system, the bourgeoisie might remain at the helm, managing the process of social transformation, while capitalism would be becoming a thing of the past. Given the benevolence of the scheme (to those in power) no secret or violent action was required, just a meeting of minds able to encompass new horizons of enlightenment: 'In one way only can we influence these hidden currents, – by setting in motion those forces of instruction and imagination which change opinion. The assertion of truth, the unveiling of illusion, the dissipation of hate, the enlargement and instruction of men's hearts and minds, must be the means.' (Keynes, 1920, p. 278)

To the end of his life, Keynes remained faithful to this beautiful apostrophe of the concluding pages of the *Economic Consequences of the Peace*. Only an open conspiracy could suit his type of mind.

Regarding the state the way forward seemed to him clear. The state would have to get rid of the principles of exchange value first in its own domain, the provision of public goods: 'It is the state, rather than the individual, which needs to change its criterion. It is the conception of the Chancellor of the Exchequer as the chairman of a sort of joint-stock company which has to be discarded'. (ibid, p. 242)

The criterion for the individual would, in truth, change much more gradually, but the scope of its application would be immediately restricted:

> For my own part I am now somewhat sceptical of the success of a merely monetary policy directed towards influencing the rate of interest. I expect to see the State, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an ever greater responsibility for directly organising investment; since it seems likely that the fluctuations in the market estimation of the marginal efficiency of different types of capital, calculated on the principles I have described above, will be too great to be offset by any practicable changes in the rate of interest. (Keynes, 1961, p. 164)

With public goods and the overall management of investment exempt from exchange-value criteria, treating private individuals' excessive money addiction would become feasible. The change would be facilitated because for individuals no complete cut-off from age-old habits of profit-seeking would be needed:

> There are valuable human activities which require the motive of money-making and the environment of private ownership for their full fruition. … But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them. The task of transmuting human nature must not be confused

> with the task of managing it. Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion. (ibid, p. 374)

As to the character of the more serious tasks which Keynes had in mind for the bourgeoisie, he has spared us the effort of a laborious search. In a rather unexpected place, an essay of literary criticism on *Clissold*, a novel by his contemporary H.G. Wells, he tucked away the whole key to the riddle:

> From where are we to draw the forces which are to 'change the laws, customs, rules, and institutions of the world'? 'From what classes and types are the revolutionaries to be drawn? How are they to be brought into co-operation? What are to be their methods?' The Labour Movement is represented as an immense and dangerous force of destruction, led by sentimentalists and pseudo-intellectuals, who have 'feelings in the place of ideas'. A constructive revolution cannot possibly be contrived by these folk. The creative intellect of mankind is not to be found in these quarters but amongst the scientists and the great modern business men. Unless we can harness to the job this type of mind and character and temperament, it can never be put through – for it is a task of immense practical complexity and intellectual difficulty … We must persuade the type of man whom it now amuses to create a big business, that there lie in waiting for him yet bigger things which will amuse him more. This is Clissold's 'open conspiracy'. (Keynes, 1972, p. 319)

The forces of the new party of social change will be enlisted from among the ranks of the educated bourgeoisie and the intelligentsia. They will form an elite party of a new type, a vanguard of the bourgeois class, capable of maintaining bourgeois hegemony over into the post-capitalist era. Their loyalty could be trusted implicitly, but the same could not be said about their stamina. Despite all their merits, Keynes knew them to be, in one respect, almost fatally flawed. Events, historical opportunities, even Keynes himself had, for a long time, kept inviting them to join the new party. But these people were not responding:

> What, then, is it that holds them back? …Why do practical men find it more amusing to make money than join the open conspiracy? I suggest that it is much the same reason as that which makes them find it more amusing to play bridge on Sundays than go to church. They lack altogether the kind of motive, the possession of which, if they had it, could be expressed by saying that they had a creed. They have no creed, these potential open conspirators, no creed whatever. That is why, unless they have the luck to be scientists or artists, they fall back on the grand substitute motive, the perfect ersatz, the anodyne for those who, in fact, want nothing at all – money. Clissold charges the enthusiasts of labour that they have 'feelings in the place of ideas'. But he does not deny that they have feelings.

> Has not, perhaps, poor Mr. Cook something which Clissold lacks? Clissold and his brother flutter about the world seeking for something to which they can attach their abundant libido. But they have not found it. They would so like to be apostles. But they cannot. They remain businessmen. (Keynes, 1982, p. 320)

They would so much like to be apostles of use-value or rather Keynes would so much like them to be: but, at the end of the day, money could still take its revenge. It could defend itself by winning over the very troops dispatched to put an end to its domination. Money which only unites by eternally dividing, money which gives power over creative life only by eternally holding creation and enjoyment hostage, has done to the bourgeoisie, its putative masters, the ultimate disservice. It has placed the survival of their social hegemony in jeopardy by corroding their capacity to transform themselves. This, rather than any technical or even economic consideration, is what, in the last resort, has irrevocably condemned the money motive in Keynes's mind.

10. REVOLUTION AND DEFEAT

Keynes had no illusions about the drastic consequences of his attack on exchange-value. He wished to achieve a positive revolution but was very alive to the risk of provoking a negative reaction. He knew how easy it could be to scare his bourgeois off, particularly at an epoch when continual crises were forcing people into spontaneous attitudes of institutional and intellectual retrenchment:

> But once we allow ourselves to be disobedient to the test of an accountant's profit, we have begun to change our civilisation. And we need to do so very warily, cautiously and self-consciously. For there is a wide field of human activity where we shall be wise to retain the usual pecuniary tests. (Keynes, 1982, p. 243)

Constraints imposed by the immediate situation had also to be taken into account. Survival had first call on the intellectual and political resources of society in the 1920s and 1930s; reform came second, it should not be allowed to get in the way of recovery. Emergency measures, on the other hand, if properly handled, might begin inducting the bourgeois into habits of collective action, necessary for reform. Keynes wrote to Roosevelt in 1933:

> You are engaged on a double task, recovery and reform – recovery from the slump, and the passage of those business and social reforms which are long overdue. For the first, speed and quick results are essential. The second may be urgent, too; but haste will be injurious, and wisdom of long-range purpose is more necessary than immediate achievement. It will be through raising high the prestige

> of your Administration by success in short-range recovery that you will have the driving force to accomplish long-range reform.
> On the other hand even wise and necessary reform may, in some respects, impede and complicate recovery. For it will upset the confidence of the business world and weaken its existing motives to action before you have had time to put other motives in their place. (ibid, p. 290)

The superhuman political skill simply does not exist which could achieve to substitute one set of tried and tested motives of a whole social class with some newfangled contraptions, dreamt up by a philosopher, if practical life itself has not prepared the ground for them in the course of everyday affairs. Keynes would have to give up his cause for lost before he ever started if he could not claim that certain embryos of the future he was envisaging were already of themselves taking shape in the womb of the present. Always emphasizing the continuity of bourgeois hegemony, he sought images of the future everywhere around him. In the spread of consumer affluence he discovered a foretaste of the abolition of the economic problem:

> I look forward, therefore, in days not so very remote, to the greatest change which has ever occurred in the material environment of life for human beings in the aggregate. But, of course, it will all happen gradually, not as a catastrophe. Indeed it has already begun. The course of affairs will simply be that there will be ever larger and larger classes and groups of people from whom problems of economic necessity have been practically removed. The critical difference will be realised when this condition has become so general that the nature of one's duty to one's neighbour has changed. For it will remain reasonable to be economically purposive for others after it has ceased to be reasonable for oneself. (Keynes, 1972, p. 331)

The Clissolds of this world need not worry. They will be the first to be absolved from the drudgery of having to make a living; they will be given the leisure to turn themselves into public-spirited managers of socialized firms, but it is they who remain in charge, for ever on the saddle. Even that section of the bourgeoisie who have to be cast aside for the sake of progress, will fall softly, smoothly and gracefully, and have, in any case, already started to do so:

> I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of this rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution. (Keynes, 1961, p. 376)

For Marx, by contrast, a revolution is necessary exactly in order to disengage from the clutches of the old society the green shoots of the new. Force, after all, is but the midwife of every old society pregnant with a new one. But regarding the factual basis of the detection of pregnancy Marx occasionally adduced evidence, rediscovered and described by Keynes, in strikingly similar terms, several decades later. The emergence of collective capitalism had, in this respect, special significance:

> Formation of stock companies. Thereby … the capital, which in itself rests on a social mode of production and presupposes a social concentration of means of production and labour-power, is here directly endowed with the form of social capital (capital of directly associated individuals) as distinct from private capital, and its undertakings assume the form of social undertakings as distinct from private undertakings. It is the abolition of capital and private property within the framework of capitalist production. (Marx, 1967, Vol. III, p. 436)

To Keynes this preliminary mutation looked like the road to an almost complete, smooth, transition:

> But more interesting is the trend of joint stock institutions, when they have reached a certain age and size, to approximate to the status of public corporations rather than that of individualistic private enterprise. One of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialise itself…. The extreme instance, perhaps, of this tendency in the case of an institution, theoretically the unrestricted property of private persons, is the Bank of England. It is almost true to say that there is no class of persons in the kingdom of whom the governor of the Bank of England thinks less when he decides on his policy than of his shareholders. Their rights, in excess of their conventional dividend, have already sunk to zero. But the same thing is partly true of many other big institutions. They are, as time goes on, socialising themselves. (Keynes, 1972, pp. 289–90)

In a letter to the *Times* on 25 March 1925 Keynes added to the Bank of England, as another institution that had almost completed its spontaneous socialization, the *Times* newspaper! How impeccable a bourgeois gentleman he could be among his peers.

It is hard to think of poverty-stricken Third World countries, repaying their debts by virtually exporting their meagre capital resources to the capital-suffused West, and believe in the euthanasia of the rentier. It is hard to think of the Chief Executive Officer of United Airlines clearing an amount equal to a cool 1200 times the earnings of a flight attendant[5] and believe that he particularly suffers from Clissoldian libidinal socialist anxieties. It is hard to watch the antics performed in management leveraged buyouts and not agree with Marx that the abolition of the capitalist mode of production within the capitalist mode of production itself ‘reproduces a new financial aristocracy, a new variety of parasites in the shape of promoters, speculators and simply nominal directors; a whole system of swindling and cheating by means of corporation promotion, stock issuance, and stock speculation.' (Marx, 1967, Vol. III, p. 438).

It is hard looking at today's world, to imagine a failure greater than that of Keynes – unless, of course, it be the failure of Marx. Of this last Keynes has left evidence of an almost prophetic insight:

> The economic transition of a society is a thing to be accomplished slowly. What I have been discussing is not a sudden revolution, but the direction of a secular trend. We have a fearful example in Russia today of the evils of insane and unnecessary haste. The sacrifices and losses of transition will be vastly greater if the pace is forced. For it is of the nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, far worse than the old, and the grand experiment will be discredited. (Keynes, 1982, p. 245)

Keynes and Marx were both fierce class loyalists. Keynes spoke contemptuously of the 'boorish proletarians', Marx found that 'the nobility of man shines upon us from their work-hardened bodies' (Marx and Engels, 1975, p. 313). Both were genius grand-strategists of class confrontation. To the social classes which claimed their respective allegiances they prescribed long-range strategies for seizing the high moral and political ground; for leading society forward to the conquest of a future, the broad contours of which they envisioned in a strikingly similar manner. They even foreshadowed parallel ways for each one of their classes to dissolve themselves into a future, presumably classless, commonwealth. The bourgeois were to shed the egotistic narrowness of private interest, to become the friends and leaders of mankind; the proletarians, having no sectional interest to defend, were to liberate the whole of society by virtue simply of their own liberation.

The State held a central place in the strategies of both. Marx had fewer illusions about the incorrigibly tyrannical nature affecting any kind of state, even a proletarian one. 'The dictatorship of the proletariat' was his frank description of the new regime. He would have liked to get rid of all dictatorships, of the entire dehumanizing institution of political power, straight away, but could set no realistic alternative to conquering the salient of state power in the battlefield of the class struggle. As a second best, he put his trust in his friend, Engels's prediction that in the hands of the working class the state, even though not abolished by the Revolution, would gradually 'wither away' (Engels, 1969, p. 33).

This illusion, neglecting here its tragic consequences, is mirrored at an intellectual level by Keynes's corresponding illusion of the 'euthanasia of the rentier', coming about without the formal abolition of bourgeois property. Both strategies of transformation of society have their peculiar spot of a guilty conscience; both have been irresolute about some central evil of society, acknowledged by them as such, which social class inhibitions or imperfections in their respective intellectual apparatus prevented them from attacking head on; both try to fend off fate by declaring that, in the new society, the evil will go away on its own; both have failed dismally to exorcise the evil.

Marx and Keynes share the common fate of having being ultimately bypassed, let down – hero-worshippers might even say outright betrayed – by the respective social class, the historical victory of which they each sought so much to secure. Eager to adopt their short-term tactical prescriptions, whether of head-on assault, as in the case of Marx, or of subtle manipulation, as in the case of Keynes, social classes on the whole preferred to turn their backs to the grandiose vision of their ideological champions. Marx's industrial proletariat showed no great desire to take up arms in the cause of the socialist revolution; they settled for a car and a set of mass-produced kitchen furniture instead. Keynes's bourgeoisie showed no inclination to sacrifice its profits on the altar of the 'open conspiracy' for a bourgeois-led socialist future. Content with their post-war market triumphs, they stopped short at safeguarding their privileges by the relatively inexpensive expedient of the various Welfare States. They wasted no intellectual energy to flesh out Keynes's uplifting masterplan of social transformation; instead they chose to fall back upon the grand substitute theory, the perfect ersatz, the anodyne for those who, in fact, want no real social change at all – Keynesian economics. Recovery, to which Keynes had bent so many of his efforts, proved too successful. It swallowed up his reform, his vast intellectual power and effort of persuasion notwithstanding. As the Young Marx could have told him already in 1844: 'Theory can be realised in a people only insofar as it is the realisation of the needs of that people. … It is not enough for thought to strive for realisation, reality must itself strive towards thought.' (Marx, 1975, p. 183)

Yet, in the materialization of successful recovery there is, perhaps, a final saving grace for the author of the *General Theory*. An effective contribution to recovery from the vast, massive disasters of two World Wars and an unprecedented worldwide economic depression is, in itself, no mean achievement. Rescuing the immediate position and resigning to the fact that the future will look after itself according to its own understanding, may well be the limit of what politicians, economists and social philosophers will ever be graced with achieving. The Long Run is, after all, for undergraduates. Mature people live in the here-and-now:

> One begins to wonder whether the material advantages of keeping business and religion in different compartments are sufficient to balance the moral disadvantages. The Protestant and Puritan could separate them comfortably because the first activity pertained to earth and the second to heaven, which was elsewhere. The believer in progress could separate them comfortably because he regarded the first as a means to the establishment of heaven upon earth hereafter. But there is a

> third state of mind, in which we do not fully believe either in a heaven which is elsewhere or in progress as a sure means towards heaven upon earth hereafter, and if heaven is not elsewhere and not hereafter, it must be here and now or not at all. (Keynes, 1972, Vol. IX, p. 268)

Keynes, a product of his epoch and his social environment, was in many respects, a supercilious, arrogant, intolerable social and intellectual snob. No socialist, perhaps not even a genuine democrat, could easily forgive him his 'boorish proletarians'. No Marxist could easily condone his rude, illiterate digs at Marx's *Capital*. Yet, despite all that, no one could fault him with lacking decency, human dignity or social sensitivity. In the midst of the tragic disasters the twentieth century has heaped on humanity, Keynes dedicated his influence and a large part of his genius to alleviate immediately the privations, the sufferings of millions of human beings. Rather than despair that heaven is not at all, he strove to conjure up in the barricaded lives of his contemporaries, there and then, a small patch of heaven. How could any one of us claim to be civilized and regard the obnoxious Etonian with anything else but gratitude.

NOTES

1. Keynes to his mother, Florence, written on 26 March 1916. Reproduced in Robert Skidelsky, (1983), pp. 325–6.
2. The text of answer number two, though admittedly not by Marx himself, was written by an interpreter of his thought very close to him, his lifelong friend Frederick Engels. It comes from *Anti-Dühring*, a book which circulated with the unreserved imprimatur of Marx.
3. As an aside, it is interesting to note that this part of Keynes's argument was translated by his contemporary Cambridge Marxist and Sovietologist, Maurice Dobb, to Soviet conditions as a rationalization of the superhuman sacrifices imposed on the Soviet working class by Stalinist industrialization (see Dobb, 1960, p. 71). Apparently capitalism, whether State Stalinist or Modern Bourgeois sometimes prompts similar apologetics to their intellectual representatives.
4. 'Then began the weaving of that web of sophistry and Jesuitical exegesis that was finally to clothe with insincerity the language and substance of the whole Treaty. The word was issued to the witches of all Paris:
   "Fair is foul and foul is fair
   Hover through the fog and filthy air."' (Keynes, 1920, p. 47)
5. *International Business Week*, number 3202–532, 6 May 1991, New York: McGraw Hill, p. 55.

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Index