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Book Review Symposium

Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown*, New York: Verso, 2013. ISBN: 9781781680797 (cloth); ISBN: 9781781683033 (ebook); ISBN: 9781781683026 (paper)

Am I a member of the Neoliberal Thought Collective? The fact that I find it impossible to self-diagnose highlights one of the problems with Philip Mirowski's latest assault on non-heterodox economics. It is a polemic, long on rhetoric, short on either evidence-based analysis or the sociology of the economics profession. One example of a device he frequently uses is to slide from discussing something specific (a member of the Mont Pèlerin society, an invitation-only group of free market and mainly conservative neoclassical economists) to something much broader but still identifiable (all neoclassical economists) to something abstract (the Neoliberal Thought Collective). I'm in the second of these, but not the first. As for being one of the 'NTC', I suspect it's like arguing with a Freudian who takes your firm denial of being passive aggressive as evidence of passive aggression, so I'll have to leave it to others to decide.

There are some points Mirowski makes about economics that I, and (some? many?) other mainstream economists, would agree with. One of my other complaints about the book is that although it pays lip service to the range of views among economists, it does not recognise that some, maybe even many, in the mainstream accept that the financial crisis has crystallised the need for change in economic research and teaching. Even, or perhaps especially, the economists who have been most critical of the conventions of the subject, such as Joe Stiglitz or Simon Johnson, are damned as patsies here. (The only author Mirowski cites entirely approvingly in this book is Mirowski.)

Of course there are large pockets of denial, especially among those macroeconomists who have invested their careers in dynamic stochastic general equilibrium (DSGE) models. Of course there is resistance to change in the key citadels of existing professional power. But there have been for some time signs of a willingness to mainstream the newer empirical approaches like randomised control trials and field experiments, or areas of cross-disciplinary work such as behavioural or urban economics, or neglected areas such as economic history[1]. Importantly, the encouraging signs now include a growing willingness to teach these in the undergraduate and graduate curriculum.

But what are those points of agreement that exist between Mirowski and me? That the public discourse about macroeconomic policy has degenerated into a political slanging match. That the DSGE models that had come to dominate macroeconomics in the 2000s have been revealed by the crisis to have no useful function, and that the programme of 'rigorous' microfoundations for macroeconomics has reached its limit. That the part of economics represented in finance theory played a part in creating the intellectual climate making the crisis possible. That economists, running many of the institutions of modern society such as central banks and regulators, do have to answer to the public for the crisis. Mirowski and I probably differ on the health of microeconomics, but he does not have much to say about that, and certainly the microeconomics taught in the textbooks and universities is not the microeconomics most economists do, and we should stop teaching nonsense.

However, outside the United States at any rate (and this is a completely US-centric book) plenty of mainstream economists agree with these points too. These

1 I described some of these changes in my (pre-crisis) book, *The Soulful Science* (Princeton University Press, 2007).

views are widely represented in economics blogs and some articles in methodology journals. Change in terms of the institutions of professional advancement is thin on the ground, because the institutional barriers to reform are substantial–a point I will come back to later. But the pressure for change is substantial too.

Another worthwhile aspect of the book is a long and interesting section on the need for a code of ethics for economists, enforced presumably by unspecified professional bodies. Mirowski rightly notes there has been some resistance from economists to this suggestion, and overall the upshot has been a decision by the American Economic Association that authors of articles published in its journals must declare their funding sources. He does not think this goes far enough. To critics of the profession, this issue is a no-brainer, and understandably so. Charles Ferguson's 2010 film *Inside Job* skewered some individual economists who had failed to identify any problems in financial markets in research paid for by financial institutions. Mirowski quotes here a job advert for a post starting in Fall 2012 that I find breathtakingly shocking:

"The Department of Economics at University of Texas at Austin invites applications from distinguished senior scholars for the tenured position of the Murray S. Johnson Chair in Economics. Applicants should be an authority on the American free enterprise system. Preference will be given to scholars focusing on conservative economic philosophy." (p236)

Presumably this was open to, say, a Marxist studying conservative economic philosophy, but it seems unlikely. (The University's website does not make it clear who was appointed.)

Having said this, there are some valid difficulties with the idea of a code of ethics for economists. At present, there are no professional bodies to which practising economists must belong; it is a very open profession, unlike accountancy or law. Economists work in a huge range of jobs: international bodies, central banks, government service, banks and financial organisations, large real estate businesses, think tanks, farmers' unions, consultancies, private firms, schools and teaching colleges. They are very mobile internationally and export their services. If the openness of the trade is to change, there is a huge institution-building job in creating a professional organisation with global authority. I cannot see how it would work. When it comes to academic economists, many belong to the American Economic Association or the Royal Economic Society or other equivalents, but membership is not compulsory. The strongest lever these bodies have over individuals is via publication, so the AEA's introducing a requirement on published articles is a good tactic for enforcing a transparency standard. Declaring sources of income is obviously good practice, but surely applies to all academics anyway? Many social scientists and natural scientists engage in some consultancy, albeit not on the scale funded by the financial sector before the crisis.

For many research economists there is also an active need to undertake consultancy work; you just cannot study financial markets or business organisation without some inside experience, because the tacit knowledge and level of detail is unavailable to an outsider. I learnt a lot about how businesses are actually run from sitting on the UK's Competition Commission for eight years, hearing merger cases. I have learnt even more subsequently as an economic consultant. It is easy to spot which academic specialists in industrial organisation have experience of the real world, and which do not. So I challenge the popular notion that taking on paid consultancy automatically makes academic economists *parti pris*.

These are non-trivial difficulties with the code of ethics idea. Besides, the truth about mainstream economists' mental blinkers is more interesting than a morality tale. It involves the sociology of the profession over the post-war era, and the universal capacity for group-think. I do not believe that most economists writing about financial markets or macroeconomics in the early 2000s were bought; they believed what they wrote, because they thought a certain way and had no capacity to step outside that mental universe. Illustrating the power of group-think through the example of a few mavericks and outsiders is what makes Michael Lewis's book on the crisis, *The Big Short*, so illuminating (although Mirowski misinterprets it as a "ripping saga of those intrepid souls who managed to come through the crisis unscathed" [p.158])[2]. One of the fascinating and alarming aspects of the crisis is that so many signs of an impending crash were evident, and identified in public by a few economists such as Raghuram Rajan and Robert Shiller (neither gets any credit from Mirowski for this–both are labelled 'neoliberals', although I doubt either would agree with him).

The financial crisis led to calls–from economists, among many others–for economists to become more humble. Many of us have ignored that good advice, as is all too evident from reading the debates about policy in the news every day. So we deserve Philip Mirowski's book as a reminder, another one, not to be so complacent.

However, the negatives–or sheer bemusement–outweigh for me the positives. Mirowski focuses almost wholly on the role of Fannie Mae and Freddie Mac in causing the financial crisis. While they clearly played a big part in the US housing bubble, which led to securitisations and CDOs and CDSs and all the rest, this is far from the whole story. Some of the book's comments about financial markets are just puzzling. For example, Mirowski describes a call by one group of economists for increased capital requirements as a "thin bromide"–has he not observed the banks'

2 Michael Lewis, *The Big Short: Inside the Doomsday Machine*, New York: W W Norton and Company, 2010.

furious lobbying against *any* increase, in the teeth of the self-evident truth that major financial institutions should not be capable of being made insolvent by a 4% fall in the financial markets? I would agree that post-crisis action against the banking industry has been feeble, but entirely disagree with Mirowski that this is because of the stranglehold of the NTC on economic ideas; the finger of blame points clearly at massive lobbying of politicians by the industry.

I already noted his device of extending what might be a correct observation about a specific group (the Mont Pèlerin Society) to the generality of mainstream economists, where the observation is incorrect or at best tendentious. There are other rhetorical devices galore–the use of the passive voice to gloss over an absence of specific agency; *always* describing models as 'toy' or 'little' when it is of the essence of a model that it simplifies–this is like tabloid hacks who say a celebrity has 'jetted off' when all airplanes now have jet engines; piling on academic jargon as a rococo assault on economics, especially in the long chapters on 'agnotology'[3]. This section in particular seemed to me to forgo the opportunity for a serious analysis of the sociology of economics.

For above all, *Never Let a Serious Crisis Go to Waste* will do nothing to enlighten either economists or other readers about the reasons for the narrow and reductionist focus of mainstream economics for more than a generation, or for that matter the reasons the financial crisis occurred. There is more illumination on these questions from sociologists like Donald Mackenzie and Joris Luyendijk, or from popular writers, especially John Lanchester. Daniel Stedman Jones in his recent book *Masters of the Universe* offers far greater insight into the Mont Pèlerin Society and

3 A definition from Wikipedia for others who had never heard of this: "The study of culturally induced ignorance or doubt, particularly the publication of inaccurate or misleading scientific data." http://en.wikipedia.org/wiki/Agnotology

how it practically achieved its formidable influence on economic policy by the 1980s[4].

As for whether mainstream economics is genuinely changing, it is impossible to know whether my faint optimism or Mirowski's pessimism will prove correct. Although it is five years since Lehman Brothers collapsed, changes in the character of an academic discipline and its professional institutions occur at a far slower pace. Reform depends on retirements and promotions in departments or editorial boards, on meetings of curriculum committees and panel debates at conferences, on textbooks being rewritten and promoted, and overworked lecturers redoing course materials. There is more change under way in Asia, Latin America and Europe than in the US, and it would not be too surprising if we return to the pre-World War II non-monolithic situation of rather different approaches to economics. This unavoidably slow institutional change is frustrating, and it makes for less exciting polemics too. But reality is ultimately more interesting than ideology.

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4 Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*, Princeton: Princeton University Press, 2012.