A POSSIBLE PARADIGM OF NEOLIBERAL ECONOMICS

In this post I ask what the paradigm of economics might be, and if there is one. I did not address the question of the exact nature of the paradigm as discussed by Kuhn, leaving it at the broadest possible level: the theories, instruments, methods, prejudices and so on common to a community of scholars working in a fairly specific area of human knowledge. The general question of the nature of the paradigm is the subject of a number of papers, most concluding that the concept is too unclear to support careful analysis. That's the position taken by George Stigler in a remarkable paper, *Does Economics Have a Useful Past?* 1 Hist. of Pol. Econ. 225 (1969). Stigler dismisses Kuhn because he can't find an example of a paradigm that completely defeats a prior paradigm.

> To be concrete, the marginal utility revolution of the 1870s replaced the individual economic agent as a sociological or historical datum by the utility-maximizing individual. The essential elements of the classical theory were affected in no respect. (A possible, but uncertain, aftereffect in twenty years was the development of the marginal productivity theory.) Until Kuhn gives us criteria of a revolution (or a paradigm) which have direct empirical content, it will not be possible to submit his fascinating hypotheses to test.

I assume Stigler means that Kuhn's ideas aren't applicable to economics. Certainly the book is full of examples from physics and chemistry of theories that completely replace older theories, leaving the old to as nothing more than objects of interest. Let me propose one such idea for economics. It is a certainty of economics that taxes exist for the purpose of raising revenue for the government. That was probably true before the advent of fiat money. When nations left the gold standard, it became untrue, as the Chairman of the Federal Reserve Bank of New York, Beardsley Ruml, wrote in 1946 in a paper titled *Taxes For Revenue Are Obsolete*. This idea is as revolutionary as the Copernican Revolution. It forms the basis of Modern Money Theory, and both the idea and the elaboration into a coherent theory are fiercely ignored or fiercely fought by the dominant economists. As it happens, this idea is leaking into public discussion despite their best efforts.

I have little else to add to this discussion about the nature of paradigms. I'll follow Stigler in accepting that there are communities of scholars engaged in the same general areas of study, and in these communities, there is a mutual agreement on theories, instruments, methods, measurements, and even prejudices, and these guide the thinkers in their day to day efforts. Stigler considers this a good picture of economics, and for my purposes, it serves to connect Kuhn's ideas to economics.

The neoclassical school dominates economic discourse and is widely taught as authoritative at every level in the US. N. Gregory Mankiw, Harvard professor and author of the leading economics textbook, wrote this in a New York Times column in May 2009:

> Despite the enormity of recent events [meaning the Great Crash], the principles of economics are largely unchanged. Students still need to learn about the gains from trade, supply and demand, the efficiency properties of market outcomes, and so on. These topics will remain the bread-and-butter of introductory courses.

Let's try to tease out the paradigmatic points of the neoliberal school. Mankiw's best-selling economics textbook contains these 10 principles of economics:

1. People face tradeoffs
2. The cost of something is what you give up to get it
3. Rational people think at the margin
4. People respond to incentives
5. Trade can make everyone better off
6. Markets are usually a good way to organize economic activity
7. Governments can sometimes improve market outcomes
8. A country's standard of living depends on its ability to produce goods and services
9. Prices rise when the government prints too much money
10. Society faces a short-run tradeoff between Inflation and unemployment

The primary method of this school is mathematical modeling, which adds at least two covert assumptions, that collective and individual human behavior is continuous enough so that it's reasonable to use college calculus, and that aggregate behavior is nothing but the sum of individual behaviors which exist independently of each other at all times. The theory is premised on the idea that the motivation of all people is efficiency, and that economic efficiency is the most prized value in a society, with all other goals held as secondary. The models are used to give normative policy advice.

This school of thought, to follow Stigler, replaced Keynesianism. P. 228. Why? Stigler suggests that a school of thought cannot survive the life of its leader. That seems very odd, because many of the ideas of the neoliberals are taken from the past. As Stigler says:

> The young theorist, working with an increasingly formal, abstract, and systematic corpus of knowledge, will seldom find it necessary to consult even a late-nineteenth-century economist. He will assume, just as the mathematician or chemist assumes, that all that is useful and valid in earlier work is present — in purer and more elegant form — in the modern theory. P. 217-8

I won't belabor the obvious point that every element of the neoliberal school is contested. Instead, I continue to focus on this question. The canonical explanation of the rise of neoliberalism is that Keynesianism failed in the 1970s, and was replaced by neoliberal economics which offered a better solution to the problem that Keynesianism stumbled over. That explanation leaves a bunch of questions. Not the least is exactly why the events of the 1970s were somehow a failure of economic theory. The solution offered by neoliberalism was the traditional conservative solution: hammer the workers and coddle the capitalists. Why is that a better solution? Remember, Keynes believed that the goal of economic recovery was to give people useful work to do [see paragraph 5], not to help the rich. And why isn't neoliberalism facing extinction in the wake of its disastrous failure? Both Kuhn and Keynes have something to offer on this question, and I'll take that up next.