

RECENSION D'OUVRAGE

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*Economics as Ideology: Keynes, Laski, Hayek and the Creation of
Contemporary Politics,*

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In fact, economic history is a long record of government policies that failed because they were designed with a bold disregard for the laws of economics. It is impossible to understand the history of economic thought if one does not pay attention to the fact that economics as such is a challenge to the conceit of those in power. An economist can never be a favorite of autocrats and demagogues. With them he is always the mischief-maker, and the more they are inwardly convinced that his objections are well founded, the more they hate him.

Ludwig von Mises

Is this statement of Mises one of ideology or science? The politically correct answer would be that this is just another example of Mises's excessive ideological commitment to *laissez faire*. But as with much in modern intellectual life, the desire not to offend produces polite but flawed argument at the expense of the harsh truth of the matter. The choice of economic policy may be a matter of democratic decision making, but the consequences of economic policy on human well-being certainly is not. And once we recognize that, then the analysis of the development of economic doctrine and evolution of political economy in the 20th century

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looks totally different. The breakdown of the Keynesian consensus in the 1970s, the collapse of communism in the 1980s and the wide-spread recognition of the failure of development planning in the 1990s, point 21st century political economy in a direction that would be a radical departure from the path it was set on at the beginning of the 20th, when an almost blind-faith in the ability of democratic government to correct social ills captured the imagination of the intellectual elites. The lesson of the 20th century for political economy should be one of humility and restraint. The *fatal conceit* of the 20th century which sought to unleash the power of the government elites to do “good” in the name of the masses must give way to a contemporary version of the 18th and 19th century project of constraining the power of the state and its elites, and unleashing the productive potential of the masses.

“The curious task of economics,” Hayek has written, “is to demonstrate to men how little they really know about what they imagine they can design.” [(1988, p. 76)]. But if economic science doesn’t exist independently from the democratic will of the citizens, then such a task is not just curious, but absurd. Enter Kenneth Hoover’s *Economics as Ideology*. At one level this is a fascinating book, dealing with an important subject, and approaching it in a unique way. The role of ideology in science, and how different thinkers of the past can shape the contemporary political climate is indeed a worthy subject of serious study. Moreover, the attempt to explain how the personal biographies of thinkers shape their own identity and thus ideology is also important. Unfortunately, there is also the problem of truth in scientific discovery. All the good will in the world doesn’t matter if the theory advocated is simply in conflict with reality. William Easterly, for example, in dealing with the post-WWII era efforts to orchestrate economic development in the 3rd world refers to the “cartel of good intentions.” (2002) One of the first principles of political economy is that intentions do not equal results – this is true for the central mystery of political economy (how individuals pursuing their own interests, and only their own interests, can within certain institutional environments generate outcomes which are socially desirable) and for the central tragedy (how individuals can in striving to promote the public good generate unintended undesirable consequences). There are systemic forces that are in operation in political economy and they exist independent of the wishful thinking of participants in the political-economic nexus. Hoover doesn’t appear to recognize this fundamental point in political economy and thus his effort to understand the development of modern political economy is flawed from the start.

Let me focus on my criticism first and then I will end highlighting aspects which I think the reader can benefit from in reading his book nevertheless. First, the selection of subjects is bizarre from the beginning if we are going to talk about economic science and its relation to public policy debates. Certainly Keynes and Hayek belong, but Laski has no claim whatsoever to being an original thinker in economics. He was a political theorist and political activist and had little to nothing to say about technical economics. Keynes and Hayek, however, were first and foremost skilled technical economists who utilized the knowledge they had gleaned from technical economics to make policy relevant contributions. In short, it is on the basis of sound economic reasoning that they were able to make policy relevant arguments to their contemporaries. But except for a paragraph here or there, the technical economics of Keynes and Hayek are passed over in this book to focus instead on their political affiliations and political influence (Keynes with the democratic center, Hayek with the hard right – Laski is given the hard left) and we are treated to asserted arguments about how personal psychology impacted their position.¹ We are treated to these figures as political theorists or rather political icons of movements that identified with them. This enables Hoover's choice of thinkers to have some coherence, though the reason for both Keynes's and Hayek's influence are going to get inadequate treatment as a consequence.

Second, Hoover is only apparently asking a question about the evolution of ideas and ideological influence. But a reader can sense from the second paragraph of the preface where Hoover's sympathies personally lay on the policy questions of the day. He laments that the ideological pendulum has swung too far to the right and then he states plainly that "On a moment's reflection, it is clear that governments do good things, as well as bad. And markets likewise are Janus-faced, sometimes provident, other times the wastrel." (p. xi) In other words, Hoover has an answer to his question before he asks it. Political economy is to serve as a means for human betterment within the context of democratic deliberation among citizens. These deliberations must be rational and not prone

1. For example, Hoover informs the reader amidst his short treatment of Hayek's theory of monetary disturbances and the trade cycle that "Hayek was wary of being mesmerized by the data. Perhaps the relation between the unseen force of evolution and the varieties of botanical life that he observed in the Alps predisposed him to a more sophisticated conception of nature's dynamics." (p. 76) But the argument that Hayek gave against aggregate data analysis and the difficulties associated with a statistical analysis of the problem for the point of view of economic theory do not make their way into the book. We do learn interesting details about Hayek's disillusionment and eventual detachment from his Austrian roots and his adoption of English culture and way of life.

to ideological excess if they are going to generate understanding among citizens of “the need for a complex interweaving of institutions, processes, and constitutional safeguards so that the excesses of any one institution may be limited, while its virtues are brought to the service of society.” (p. 270) Who, the reader must ask, could ever be against limiting abuse and encouraging virtue? Nobody can be against the exercising of wisdom, courage and public spiritedness in making political decisions. But in Hoover’s treatment both Laski and Hayek are going to be found wanting in this regard because ideological theorizing in their name can be abused by politicians on the left and right – as Hoover argues we have seen² – and thus only Keynes is left to rationally mediate between the two extremes of socialism and libertarianism. Overly ideological thinking is what causes problems in democratic deliberation, according to Hoover.

Third, Hoover relies on psycho-historical analysis, rather than an examination of economic doctrine and empirical studies, to explain how Keynes, Laski and Hayek came to adopt the ideological positions they represented in public debate. There is no denying that personal experience shapes the way individuals form their identity and thus their ideology. There is also no denying that reading personal histories can be engaging and intellectually rewarding. But can we really say that Hayek’s libertarianism has as much to do with his desire to justify his divorce as his life-long commitment to the ideals of liberty?! (p. 229) Did Keynes’s supreme belief in the power of his own intellect and his flaunting of traditional morality all prepare him for the advocacy of rational deliberation over values in a democratic manner that came to be the hallmark of progressive politics in the contemporary world? This is all fun to read, but I would rather see the answer to Keynes and Hayek in the different philosophical doctrines they adhered to as reflected in their writings from early on, and the technical arguments in economics they put forth and what they learned as theorists during debates with colleagues in the 1920s-1940s. Their understanding of the teachings of the science of economics, not the personal psychologies of Keynes and Hayek, explain their respective positions in contemporary politics, and the lack of understanding of basic economics explains Laski’s policy positions.

Not all is lost in reading this book. It does benefit the reader. First, it is well written and the personal histories are interesting – though any

2. For example, Dick Army is credited with using Hayekian ideologizing to distract attention from the substance of policies that advantage the rich. (p. 267) Whether the policies do in fact advantage the rich is not examined in the book, even though that is in fact a contested fact subject to much scholarly debate in the economics literature.

serious scholar of the different thinkers would have already encountered the material either in primary documents or in previous biographies. In short, no new biographical information is unearthed in Hoover's book. But the way he weaves it with the development of doctrine and in particular in the clash between these different thinkers during the 1930s and 1940s provides a rewarding read.

Second, putting the question of ideology and its role in political economy on the table is welcomed. But here again, I think Hoover could have benefited from examining what economists have had to say about this and in particular the work of Joseph Schumpeter, *History of Economic Analysis* (1954). Schumpeter argued that ideology is often indispensable to science because it provides the raw material for scientific analysis. Ideological vision in Schumpeter's terminology is a pre-analytic cognitive act that is a necessary though not sufficient step in economics analysis. Ideology is capable of providing the analyst with questions to be worked through in a non-ideological manner with economic reasoning. But without the ideological vision in the first place the questions would not be raised and the science of economics may well stall.³ In Hoover's presentation, however, ideology exerts its power only in a negative manner – by distorting rational discourse and clouding reality. This is too easy, and it also overlooks the basic fact that science needs raw material to work with if it is going to make progress. Moreover, the act of claiming that one occupies the sane rational middle is an ideological trick in its own right to present ones intellectual opponents as irrational extremists. Rational assessment of the logic of an argument and differing empirical interpretations offered is dismissed in favor of a rhetorical strategy that classifies opponents rather than engages them. As with many of the arguments in this book, it is my assessment that Hoover often believes a position (e.g., the effectiveness of Keynesian consensus policies) is settled when in fact it is precisely that position which is under contestation in the scientific community of economists.

It is my belief that Hoover is led to this, and other positions in his book that I find objectionable, because he fails to see economics as a discipline which can provide us with knowledge equivalent in ontological stature to the law of gravity and that democratic deliberations often produce

3. See Heilbroner (1990) for an examination of the relationship between vision and analysis in 20th century economics from this Schumpeterian perspective. Heilbroner's own critique of post Keynesian consensus economics did not question the analysis of rational expectations theory, but instead focused on what he terms a "crisis of vision", see Heilbroner and Milberg (1996). Hoover does not draw on these works to analyze ideology, economics and public policy.

economic policies that are the equivalent of engineering proposals for human beings to float rather than walk or drive to their next destination.⁴ If my characterization is correct, then as we saw in the quote from Mises, the economists will find themselves in opposition to proposed policy solutions to right this or that perceived social wrong. The economist is put in the unenviable position of reminding fellow citizens that wishing it so doesn't necessarily make it so. The science of economics puts parameters on our utopias, and those who advocate utopian solutions cannot stand any suggestion that their plan for the future is unworkable. The discipline of economics in addition to providing a critique, also suggests that any alternative arrangement being proposed must specify the institutional mechanisms by which incentives between actors will become aligned and the correct information will flow to right actors in time for them to make appropriate decisions or learn from their previous decisions that mistakes were made so the appropriate adjustments will be made. If no mechanism is in place, then incentive incompatibilities and coordination failures will result so that no matter how beautiful the proposed policy might appear on paper the solution will be one of economic waste and political opportunism. Because Hoover's book doesn't deal with economic science in such a sustain way, it cannot at the end of the day explain the evolution of modern economic thought and without that there is no way to understand the creation of contemporary politics in the wake of the breakdown of the Keynesian consensus in the 1970s, the collapse of communism in the 1980s and the realization of the tragic failure of development planning in the third world in the 1990s. Economic reality, it turns out, more than psycho-history is the best way to understand the way the world work.

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4. The distinction between ontology and epistemology are often forgotten in discussions of the methodology and philosophy of the social sciences. We come to know the laws of gravity in a manner different than we come to know the law of demand (question of epistemology), but the forces at work that are described by the law of gravity and the law of demand are nevertheless real in the same way (question of ontology). The argument for methodological dualism between the natural and social sciences that was made by Mises and then Hayek crucially relies on this distinction between ontology and epistemology. In other words, economics is capable of establishing laws that have the same ontological claim as those derived in physics, but they are arrived at through procedures of inquiry entirely different from those employed in the natural sciences.

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