On "Defunct Economists" and the Use of Economic Ideas

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> "The ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist."
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> John Maynard Keynes (1936, p. 383)

One Friday afternoon a dozen or so years ago I sat in on a freshman honors seminar led by one of my colleagues. This weekly seminar featured guest speakers from various walks of life, and that week's speaker was a state legislator who happened to be a member of the Republican party. At one point during his talk, the legislator emphasized that he was not a "Keynesian," for he was opposed to expansive government expenditures, seeing tax cuts as the path to economic growth. During the Q&A period that wound up the session, I raised my hand and, when called upon, informed our speaker that Keynes (1936), too, saw tax cuts as a tool for economic stimulus, meaning that our speaker was, unknowingly, a Keynesian. His reaction was one of disbelief, that I could not possibly be correct. Of course, he had never read Keynes. He had simply been taught that Keynesian economics meant big government and so was bad, and he was only too happy to parrot that line.

It has become gospel among those on the left that 'neoliberalism' is responsible for most of the maladies that afflict the world today. What that 'neoliberalism' consists of is difficult to pin down, as the only consistent element in the literature is "right-wing ideas that I don't like." But this choir sings with an almost singular voice when it comes to identifying the intellectual villain of the story—one F.A. Hayek, the founder of the Mont Pelerin Society from which emerged the "neoliberal thought collective." Hayek is best known as a promoter of individual liberty and for his insistence that information problems typically make the pricing system a better coordinator of economic activity than is the state (Hayek 1944). In the hands of the left intelligencia, however, his ideas have been transmogrified into an anti-democratic agenda, support for corporate power (and attendant consumer exploitation) run amok, and efforts to choke off the state (at least apart from its support for corporate power) by subjecting its activities to the benefit–cost test. Each of these claims is laughable in its own way, though perhaps none more so than the last given that Hayek's own words, to say nothing of his subjective theory of value, rule out the very possibility of doing benefit–cost analysis.

1. Department of Economics, Duke University. Email: sgm37@duke.edu. I am grateful for the encouragement provided by Bradley Bateman during the preparation of this essay, and I have benefitted greatly in this process from the insightful commentaries on Keynes and on Hayek found in Bateman (2006) and Caldwell (2020).

Of course one person's villain is another person's savior, and Keynes and Hayek are no exceptions. Lord Skidelsky and the legion of those shouting, "See, Keynes was right!" following the crisis of 2008 want us to be clear that the great man provided us with timeless economic truths, particularly regarding the ability of governmental policy gymnastics to successfully accomplish all manner of things, that we neglect at our peril. And woe betide those who cross the Hayekians, the most rabid of whom seem to see every new government program as moving us ten steps closer to serfdom and any imperfections in government activities as a clear signal of Hayek's profound insights about the evils of state action. Fear the disciples.

What has any of this to do with this symposium dealing with the ongoing value of the ideas of Keynes and Hayek? Well, everything. The symposium effectively pits Hayek vs. Keynes, not unlike the famous rap video and, indeed, so much scholarly debate. Intellectual lines are drawn, policy territories established, and dutiful foot soldiers occupy their respective camps. In the process, economic argument comes to resemble theology, with deviations from a particular orthodoxy not countenanced. Keynes *and* Hayek? Don't be silly. Each side plays the game of Copernicus vs. the Church. There is right, and there is wrong, and no right-thinking person would countenance the possibility common ground, fruitful pairing, and that the insights of each point to the profound limitations of the ideas of the other.

One of the bright threads in the carpet that is the history of economic ideas is a to and fro over the possibilities and limitations of market and state. Centuries of economic thinking focused on the dangers arising from the self-interested behavior of consumers and producers and advocated for strong and high state bumpers to restrain these excesses. This gave way, at the hands of Mandeville, Smith, and others, to a story about how the marketplace could, by and large, channel self interest in appropriate directions, in some versions with a greater emphasis on market success and in others on government failure. The twentieth century saw the worm turn twice more—first, with an increasing unease with the extent of market failure and a growing confidence in the ability of economic expertise to devise remedies, and then in the attempt to demonstrate that these confidences were misplaced, with the seeming inevitability of government failure demonstrated using the very theoretical tools that had identified the failures of the market (Medema 2009).

Keynes and Hayek have become, in our age, emblematic of—indeed, poster-children for—these latest turns, victims of the inexorable urge to depict economic life in terms of market vs. state. We arrived at this point via a historiography where close reading is sacrificed to caricature and nuance cannot be allowed to get in the way of a good story. None of this is to deny the fundamental hermeneutic problem. That the scholarly literature is replete with Keynes's and Hayeks, to say nothing of Smiths and Ricardos, is evidence enough for that. But it is fair to say that neither Keynes nor Hayek would recognize the person so labeled by many of their critics, or even by many of their ostensible disciples.

Any number of those who advocate re-centering the history of economic thought in the economics curriculum, particularly at the graduate level, do so because they believe that, "If only economists would read (pick your preferred unjustly neglected figure from the past), they would become aware that there was a better way of doing economics. These same individuals are also of the mind that there are clear, obvious, and consistent answers to the questions put to the authors of this symposium. Those who see no value in history of economics education, on the other hand, tend to be of the mind that all useful ideas from the past are incorporated in the economics of the present. For them, the answers to the symposium questions are irrelevant, as modern economics, rather than the musings of dudes long dead, provides the proper vehicle for thinking about these things. The intellectual hubris reflected in each of these positions cannot be understated.

One of the defining characteristics of social science is that ideas are almost inevitably incomplete. A second is that, in part because of the first, they are also almost inevitably contradicted by experience. Maybe not today, and maybe not tomorrow. But eventually, and often repeatedly if one takes a sufficiently long view. There is no Newton or Einstein waiting to provide timeless answers to economic questions—theories that are True, and simply await empirical verification. Life is messy. Bits of useful scholarly insight lay side-by-side on the page, or in the *oeuvre*, with the cringeworthy. The author of *The General Theory* also wrote *A Treatise on Money*. "The Use of Knowledge in Society" was preceded by *Prices and Production*. Even the best of footballers put it wide of the net with some regularity.

It is no sin to attempt to find kernels of utility for the present in the ideas of the past. Indeed, it is fair to say that all progress, whether in the realm of ideas or in things more practical, inevitably builds on the successes—and yes, failures—of our forebears. But grave dangers await when we chart our course by genuflecting before venerated saints, pretending that we can find in their scribbles the cures for even our minor afflictions, let alone the path to salvation. Capitalism is a delicate and difficult beast. Financial markets are complex, heterogeneous, and evolving. COVID has claimed the lives of millions and certain of the responses to it less currently calculable but no less real damage to the lives of millions more. Poverty and massive inequality have been a virtual fact of life through most of human history. To pretend that Keynes or Hayek give us the proper lens through which to view these issues or can provide *the* answers to the associated challenges is foolhardy. To pretend that either of them has nothing of use to offer when thinking about these challenges is equally absurd. The uncomfortable truth is that reality in turn stomps on and vindicates the ideas of both Hayek and Keynes; we disregard each at our peril.

Is all of this just a plea for pragmatism, which some would regard as the refuge of the simple-minded? Perhaps in part. But much more than that it is an argument that the complexities of reality can only be met through a thought process that is equally complex, the product of a cacophony of voices and perspectives. I am not talking here about Keynesians and Hayekians and Friedmanites and Marxists and other assorted 'ists' and 'ians' each insisting that we order economy and society in *their* way, *tout court*, thereby choosing the road to heaven rather than perdition, with actual outcomes determined by who can get the most votes or force their strongman into power. Rather, I am suggesting—indeed, insisting—that real and consistent progress in meeting society's most profound challenges will only come through an intellectual eclecticism that is, and perhaps always has been, all too rare. Not coincidentally, Keynes and

Hayek understood this well, learning from each other as well as from others of rather different stripes. And I expect that Keynes would have found much value in Lucas and Hayek in, say, Tirole. At this point, the disciples simply turn away, shaking their heads; and this author smiles, knowing that his point has been made.

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