Mumbo Jumble: The underwhelming response of the American economics profession to the crisis

Philip Mirowski [1] 28 February 2012

In this extract from his forthcoming book, *Never Let a Dire Crisis Go to Waste* (Verso), the philosopher and historian of economics Philip Mirowski seeks to explain how the American economics profession has successfully avoided culpability for the economic crisis.

Neoclassical economists, having worked hard to convince the world that everything was hunky-dory circa 2005, and concurrently having invented the rationales and the theories behind the financial time bombs that went off across the landscape, don’t seem to have suffered one whit for the subsequent sequence of events, a slow-motion train wreck that one might reasonably have expected would have rubbed the credibility of lesser mortals. Individually and collectively, they have only become more dominant in academia and in government. They are even tapped to usurp the position of democratically elected leaders in periods of crisis.

The economics profession can only seem to have escaped scot-free from the crisis because certain fundamental intellectual trends and supportive institutions conspired to maintain it in the face of screaming headwinds. The armory of defense mechanisms will only become apparent with the fullness of time and the diligent efforts of future serious intellectual historians of economics; but in the interim, I shall suggest four major sources of the deliverance of economics from its critics.

1. The Immunity Granted by the Financial Sector and the Federal Reserve

It was indeed the case that the orthodox economics profession had become heavily integrated with the commanding heights of the formal financial sector over the last three decades, which means both the banking and allied spheres, and the major governmental institutions tasked with their regulation. In the eventuality that both spheres will have managed to come through the crisis intact, then the economics profession ipso facto would also be sheltered from the storm.

In a counterfactual world, had the reaction been instead the breaking up of the big banks and cleaning up the shadow banking sector, then the economics profession would have discovered a badly exposed and vulnerable flank. Once heads started to roll, the press would have been more inclined to discover economist craniums skittering hither and yon, and then it would have proven far more difficult to maintain the pretence of serving as detached spectators, guarantors of the public weal.

The interlocking connections between the pinnacles of the economics profession and the glittering heights of the financial sector have been briefly noted in passing, but tended to get lost when many of those firms were rescued or otherwise saved by the Fed. The movie *Inside Job* [2] attempted to foreground the subject of how there must have been something systematic about an entire profession getting paid to be on the wrong side of a degenerating financial infrastructure, and then shielded from audit thereafter; but perhaps predictably, the lesson was rapidly interpreted as concerning the morality of a few individuals, understandably inclined to accept a little money ‘on the side’.

Defenders were readily recruited to huff: these people really believed what they preached, were not
craven lickspittles, and could not be corrupted by such modest emoluments. One indication that this interpretation was itself faulty was that the amounts of money involved were many multiples of their official academic salaries. Another is that the point being made has nothing to do with their personal probity or cherished beliefs: rather, it concerns the ways in which these figures led the economics profession to be suborned to the financial sector.

The recruitment track in America worked like this: If you were lucky enough to write a few macrofinance papers in major journals that attract the attention of people that matter; and then garnish a plum political job like under-assistant-sub-secretary of the Treasury/Council of Advisors, touching the right political bases, then it just follows that you will in the fullness of time become absorbed into the corporate/financial sector in some reasonably lucrative capacity, all the while speaking out as an ‘independent’ academic voice for the public commonweal. This career trajectory has been a conveyor belt for some time now, at least back to 1970, when Paul Samuelson [3] helped found the hedge fund Commodities Corporation [4]. The issue is not the possible compromise of personal virtue of this or that individual in the face of tempting blandishments; it is rather that the proud pretence of ‘independent expertise’ has become thoroughly undermined by career co-optation within the current economics profession. This has been the bane of academic economics, but also, after the crisis, the vessel of its deliverance.

2. The Immunity conveyed by the Neoliberal Restructuring of Universities

It was not just the turbocharged finance sector that provided cover for economists. Another major factor in the maintenance of the untouchable reputation of the orthodox economics profession has been the progressive commercialization of the totality of university research since the 1980s. If one wholeheartedly subscribes to the neoliberal doctrine of the market as uber-information processor, then ‘reform’ of the university prescribes the monetization of knowledge in all its forms. Since the 1980s, the most prominent academic prophets of this reform have been members of the economics profession. Indeed, so zealous were the Boards of Trustees and state governments to bring this change about, that neoclassical economists were frequently installed as Presidents of many major universities (such as Larry Summers [5] at Harvard and Rick Levin [6] at Yale). These captains of erudition then set out to shrink the footprint of the humanities and expand the natural sciences at their institutions, since that was where the money was purportedly to be found. But a little-noted subsidiary trend was to further expand the representation of economists within the academic walls.

Any generalizations in this area are bound to be controversial, so let me simply suggest how this issue impinges upon the question at hand. Let us take as given that economists have come to occupy proportionally more positions and more strategic positions within the modern university; and let us also accept that the Great Transformation of the modern university since 1980 has followed the imperative to restructure research so it becomes more responsive to commercial imperatives. It remains to be demonstrated beyond a reasonable doubt, but there is plenty of circumstantial evidence to suggest that these two trends have been intimately related to one another. Economists have theorized and promoted the benefits of the commercialization of knowledge; and in turn, universities have hired more economists at salaries far above those of other disciplines for their expertise to both preach and effectuate this commercialization outside the standard compartmentalization of departmental organization.

This goes some distance in explaining why economists would not readily be punished by universities for their undistinguished track record in the crisis. Within universities, economists have rendered themselves indispensible as the new arbiters of human capital bestowal and commercial validation. They occupy key posts in business schools, law schools, and medical schools, propounding doctrines both mathematical and cultural. When the academic economist ventured beyond the ivy walls to retail her expertise and preach the virtues of the marketplace, she was simply foreshadowing for other faculty members what behavior would be required in the 21st century university. Their sometimes shadowy positions in the financial/governmental/academic complex were occasions for pride and pomp in the eyes of university trustees, and not of intellectual compromise or culpability.
It would be a tremendous repudiation of everything the university had striven to become after 1980 to downsize or close an economics department as a cost-saving measure, unlike (say) the odd department of geography, or philosophy, or astronomy, or area studies.

3. Neoclassical economic theory denies academic markets can ever be corrupt

Another major reason the economics profession has managed to dodge the bullet of the crisis is that its default stance towards conflicts of interest is much closer to that found in the financial industry than that of academia, in the grand continuum of professional governance. Orthodox economists tend to see nothing wrong with conflicts of interest (like Goldman Sachs sees nothing wrong in betting against its own clientele), particularly with undisclosed payments by parties with direct interest in the doctrines propounded, since they have generally subscribed to the precept that market arrangements themselves are capable in principle of monitoring, restricting and resolving any such conflicts in the course of normal operation.

This has the curious implication that, whenever the economic orthodoxy has written about the ‘problem of corruption,’ it only parsed the problem as besetting those individuals working in the public sector. Since everyone else employed in the private marketplace is known to be motivated by private gain, and the market turns that into public welfare, then by definition, there are no conflicts of interest in the private sector, only lax imposition of contractual protections.

Economists, the prophets of incentives, quite logically respond to their own incentives to service their various constituencies, and as they never cease to insist, life is nothing but a sequence of tradeoffs. Whenever they make reference to ‘the public good’ or ‘general welfare’ in the course of their endeavors, they frequently mean nothing more than the brute fact that caveat emptor. Thus when some rude outsider – say, Charles Ferguson in Inside Job—gets all steamed up about ‘conflicts of interest’ while uncovering their prognostications, they react in a way resembling Harvard economist John Campbell [7] in the film; insiders are nonplussed, really at a loss to see what all the fuss is about. There will be no eleventh hour conversions, no dark nights of repentance, no rending of garments and gnashing of teeth for the economics profession.

This dynamic explains why the push to get the American Economic Association [8] to adopt a professional code of ethics in response to the crisis will be totally unavailing. The AEA set up a committee (with secret deliberations!) to respond to the embarrassment of Inside Job, but it was met with a great wall of indifference within the profession. Neoliberal economists and public choice theorists immediately argued to their own satisfaction that, within their world view, there was no point to the AEA issuing a binding professional code. Predictably, the AEA has since issued a set of non-binding platitudes, largely for public relations purposes. Whom among journalists or other outsiders will challenge this cynical ploy? And, conveniently, universities also have been the staunch natural defenders of the Divine Right of Economists to do whatever they please. Universities have professed to hold medical researchers to a much higher set of standards; and even there, the results have been dismal.

4. ‘Agnotology’ is the Economics Profession’s best friend

If we define ‘agnotology’ to be the analysis of the intentional production and promotion of ignorance, then it has been the Fourth Horseman of the Absolution from Apocalypse for economists. Whether it be in the context of global warming, oil depletion, ‘fracking’ for natural gas, denial of Darwinism, disparagement of vaccination, or derangement of the conceptual content of Keynesianism, one unprecedented outcome of the Great Recession has been the redoubled efforts to pump massive amounts of noise into the mass media in order to discombobulate an already angry and restive populace. The techniques range from alignment of artificial echo chambers and special Potemkin research units, to co-opting the names of the famous for semi-submerged political agendas; from setting up astroturfed organizations, to misrepresenting the shape and character of orthodox discourse within various academic disciplines.
Agnotology takes many forms. One of the major techniques of agnotology is to simultaneously fund both ‘legitimate’ and illegitimate research out of the same pot, in order to expand the palette of explanations as a preliminary to downplaying the particular subset of causes which are damning for your client. It might seem that agnotological interventions in an academic discipline might be greeted as an unwelcome source of meddling; for instance, many a climate scientist might ruefully wish that they had never drawn the attentions of the neoliberal thought collective. But in this, as in so many other respects, economics has been the outlier, because one might argue the corporate body of orthodox economists has actually benefitted enormously from the escalation of cacophony, rendering it more immune to the wrath of a disillusioned populace.

Precisely because of the material and intellectual conditions identified in points 1 and 3 above, economists generally are not so very offended by the gush of tainted money and dubious activity that has been pouring into the various extremities of the professional citadel of economics since the crisis. They cannot be shamed into rejecting Koch money funding individual chairs in middling-ranked economics departments, or an advertisement in Job Openings for Economists which specifies political orientation as a prime requisite for job applicants. No one suffers ridicule for propounding demonstrable falsehoods (like the thesis that Fannie Mae and Freddie Mac caused the crisis, or that TARP ‘made money’) in public. In short, the promotion of doubt over “what orthodox economists really believe” has proven a convenient smokescreen behind which the profession can evade the pitchfork-wielding populace, all the while pursuing its conventional practice of telling its patrons what they want to hear.

This is an extract from Philip Mirowski’s forthcoming book Never Let a Dire Crisis Go to Waste, to be published by Verso.
William Davies [13]
Economics as a public art [10]

Judith Marquand [14]

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