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The Undemocratic Mandate of Economic Expertise in the 1970s

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Abstract

This thesis investigates a pattern of co-production within the field of science and technology studies as it applies to economic ideas and events of the 20th century. The intellectual traditions of Keynesian social liberalism and neoliberalism are traced historically. The economic crises of the 1970s, which highlighted the differences between said traditions, are described. An analysis follows in which a partly original framework of theories is tested. The underlying theme is the proper division of science and politics in a democratic society, especially in relation to the problem of biased and undemocratic expertise.

Abstract på svenska

Detta examensarbete utreder ett samproduktionsmönster inom ämnesområdet science and technology studies, tillämpat på nationalekonomiska idéer och händelser under 1900-talet. Två intellektuella traditioner spåras historiskt: keynesiansk socialliberalism och nyliberalism. De nationalekonomiska kriserna under 1970-talet, som aktualiserade skillnaden mellan nämnda traditioner, beskrivs. I analysen testas ett delvis originellt teoretiskt ramverk. Det underliggande temat är frågan om den riktiga linjen mellan vetenskap och politik i ett demokratiskt samhälle, särskilt gällande problemet med partisk och odemokratisk expertis.

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Introduction

The 1970s was a cataclysmic decade in which two intellectual schools collided: Keynesian social liberalism and neoliberalism – both of them rooted in classical liberalism and laid forth by economists. Unsurprisingly, they clashed in the decade of economic crises with dire policy implications. The sudden abandonment of the post-war monetary order, two energy crises, stagflation, and economic malaise all happened within the decade.

It may be tempting to simplify the 1970s by saying that economic events made policy makers shift from Keynesianism to neoliberalism. There is something to that explanation; people became more attuned and susceptible to economic alternatives during the crises. But such a narrative conceals the long-standing tension between the intellectual traditions of social liberalism and neoliberalism. They were substantial schools of thought containing a great deal more than economic theory, which is exactly what made them controversial.

Economics in general is not like other sciences. As a social science it is obviously distinct from the natural sciences by its subject matter. But its mathematical and statistical methods sets it apart from most other social sciences as well. By being so formalised, economics has a more tangible claim of scientific validity. Economics is also an inescapable science for all exercises of government. The political content of economics forcibly leads us to fundamental questions of what kind of society we want.

Therefore, the nature of economic science makes the economic expert much more controversial when he counsels political leaders than, say, an expert in nuclear physics or engineering. The political bias of economic expertise can lead the expert in economics to offer policy advice which is partly grounded in implicit ideological beliefs. Even the way in which the economist frames a problem may influence the policy maker's understanding of economic issues.

The problem of economic expertise during the eventful 1970s is the topic of this thesis. The concurrent intellectual traditions of Keynesian social liberalism and neoliberalism will be historicised in separate chapters. One chapter also describes the economic crises in question. The implications of economic expertise will be analysed with the aid of a partly original framework of theories derived from the field of science and technology studies. The thesis ends with a discussion on the line between politics and science in a democracy.

Theory

Can science be oppressive? Philosophically, we know that one can never derive an ought from an is.¹ This is known as David Hume's guillotine. If science is a process of truth-seeking, and the truth is defined as that which is, then it should contain no value judgements. It is our heritage from the Enlightenment that science should be divided from the political process. For this reason, we expect science to be disinterested in values. Conversely, we expect the political process to explore, define, and build reasonable consensus about what ought to be done. Politics is imbued with moral judgement and so becomes anything but disinterested, especially in democratic societies.²

Positive and Normative Economics

In economics, the distinction between that which is and that which ought to be is named positive and normative. Positive economics is associated with economic research and is necessarily descriptive. Normative economics is related to economic policy, especially policy advice, and includes value judgement. Positive economics may very well inform normative economics but never lead to it by inference. The sharp line between positive and normative economics famously annoyed former US president Harry Truman: "Give me a one-handed economist! All my economists say 'on the one hand...but on the other'"³. Those economists were being professional, not obstinate.⁴

The Line Between Science and Politics

As a culture, we should be quite familiar with the dangers of politicised science. Many scientific endeavours, like racial biology or nuclear physics, can be weaponised by the holders of political power. On the other hand, the case against scientified politics seems less intuitive. There are many who lament the low scientific literacy of political leaders and yearn for an

¹ Sundqvist, Göran and Soneryd, Linda. *Vetenskap och demokrati*. Lund: Studentlitteratur, 2019, p. 40

² *Ibid*, p. 37-54

³ Keyes, Ralph (ed). *The Wit and Wisdom of Harry Truman*. New York: Harper Collins, 1995, p. 32

⁴ Blaug, Mark. *Economics*. *Britannica Academic*. <https://academic-eb-com.ludwig.lub.lu.se/levels/collegiate/article/economics/109547#236796.toc> (accessed on Jan 12, 2021)

enlightened elite of scientifically inclined leaders who disregard the rubble of demagoguery. Proponents of scientified politics see no problem in deriving moral judgement from scientific conclusions. In a sense, they believe that even the difficulty of deriving an ought from an is can be broken down and solved with the scientific method.⁵

The answer to the opening question becomes straightforward; science can certainly be oppressive if it intrudes on the political process in a democracy. Politics in a democracy – imperfections aside – is an inherently inclusive process. It is understood that a democracy should be consensus-seeking while science should not; our acceptance of scientific conclusions does not depend on whether the citizenry agrees with them. And yet, the matter is complicated by the fact that the line between science and politics, nature and culture, is not so neatly drawn.⁶

Theory of Co-Production

The co-productionist view in the field of science and technology studies offers an explanation as to why the line between science and politics may be unclear. "Science and technology are indispensable to the expression and exercise of power" writes Sheila Jasanoff and continues: "What we know about the world is intimately linked to our sense of what we can do about it...". When science and technology is indistinguishable from power, the issue of values and meaning becomes inevitable. The realms of science, technology, and social life "underwrite" each other. Essentially, co-production is "...the interplay of the cognitive, the material, the social, and the normative.." aspects of human experience.⁷

Jasanoff identifies four instruments, or known pathways, through which the potentially disruptive interplay is stabilised and ordered. One such instrument is institutions, described as repositories of knowledge and power. Another instrument is representations, which includes models – navigable simplifications of the real world which still shape our understanding. A third instrument is discourses, meaning the use of language to convey and conceptualise novel ideas from the vanguard of research. A fourth instrument is identities, encompassing the

⁵ Sundqvist, Göran and Soneryd, Linda. Vetenskap och demokrati. Lund: Studentlitteratur, 2019, p. 12-16

⁶ Ibid, 12-16

⁷ Jasanoff, Sheila. Ordering knowledge, ordering society in Jasanoff, Ordering knowledge, ordering society in States of knowledge

categorisation of both objects and individuals but, most importantly here, including the identity of the expert.⁸

The Problems of Expertise and Framing

The expert comes from the realm of science and is called upon to counsel political decision makers. As such, the expert can exert an influence far beyond that of any ordinary citizen despite his being unelected. This is known as the undemocratic mandate of expertise.⁹ It makes the expert a "...quintessential bridging figure of modernity..."¹⁰ where that which is bridged is the line between science and politics.

Due to the idiosyncrasies of the scientific mind, the expert will sometimes frame the issue at hand in a reductionist way to make it manageable and quantifiable – omitting the wider implications which made it into an urgent issue in the first place. This framing problem can have disastrous consequences. When the expert frames the issue too narrowly, the general public may begin to question his competence – especially his ability to see the bigger picture. This can lead to what is known as overflow where the issue leaks out of the hands of the expert – out of the realm of science – and into the hands of anyone who claims ownership over it. At this point, the issue in question is owned neither by the scientific establishment nor the political decision makers.¹¹

There are cases when framing and overflow is necessary and desirable but according to Callon, “economic theory seems predisposed to the hypothesis that these overflows should be regarded as accidental and consequently that framing should be perceived as the norm towards which everything should tend”.¹² Admittedly, Callon applies his theory to economic externalities, which is not exactly the issue of this thesis. But the general structure of framing, overflow, and leakage is applicable.

⁸ Jasanoff, Sheila. Ordering knowledge: ordering society. In *States of Knowledge*, Sheila Jasanoff (ed.), p. 39-43. London: Routledge, 2004.

⁹ Grundmann, Reiner. The Problem of Expertise in Knowledge Societies. *Minerva* 55, 2017: pp. 25-48.

¹⁰ Jasanoff, Sheila. Ordering knowledge: ordering society. In *States of Knowledge*, Sheila Jasanoff (ed.), pp. 39-43. London: Routledge, 2004.

¹¹ Callon, Michel. An essay on framing and overflowing: economic externalities revisited by sociology. *The Sociological Review*. Vol 46, issue 51, 2014.

¹² *Ibid*, p. 251.

New Pathway of Co-production

A new pathway of co-production is opened to circumvent the political process when it proves itself incapable. The new pathway may include new experts, appointed not formally by political decision makers but informally by the general public through such intermediaries as mass media. This dynamic between alternative expertise and the general public becomes a temporary phase of intense co-production whereby old truths are replaced and new truths become dogma. At this point, public opinion is ahead of policy, and political decision makers are forced to adapt by legitimising the new experts – or themselves, by association with the new and popular experts – and internalising the new truths. The political adaptation then restores the normal pathway between experts and politicians, and normal co-production is resumed.

The Problem of Bias

The new pathway of intense co-production raises the most central problem of expertise, namely that of bias. Coming from the realm of science, the expert is presumed to be unbiased and disinterested in normative issues.¹³ As such, the expert is not just a public intellectual. To clarify the distinction, an intellectual is someone whose end product is ideas meant to influence opinion while the expert provides a coherent set of facts to inform policy. It can be said that the intellectual is allowed to be normative while the expert should be predictably positive. This has been noted in the literature.

Sometimes...people presume that experts pursue only the truth or that bias is costly for them because their only interest is the pursuit of truth. But when experts' models have alternative uses, when they are instruments for policy or to please those with whom they are connected, the motivations become more complicated.¹⁴

¹³ Grundmann, Reiner. The Problem of Expertise in Knowledge Societies. *Minerva* 55, 2017: pp. 25-48.

¹⁴ Levy, David M. and Peart, Sandra Jay. *Escape from democracy*. New York: Cambridge University Press, 2017, p. 7

An ideologically motivated expert might well exceed the line between positive and normative – between science and politics. This is a known mechanism by which science can become oppressive and it comes with a psychological aspect. There have been times when a public intellectual becomes an appointed expert. As a public intellectual, the expert might be so highly regarded that his authority to delve into the normative becomes difficult to question. One can easily imagine the overpowering authority of a scientific expert who might have a Nobel prize and a wide following.

Constructing a General Pattern

With this entire theoretical framework, we can construct a general pattern of events which will become helpful in the historical analysis to follow.

1. *Normal co-production (Jasanoff)*

The ordinary pathways of coproduction – institutions, representations, discourses, and identities – are working mostly as described by Jasanoff.

2. *Overflow and leakage (Callon)*

An issue arises which the appointed scientific experts frame too narrowly, leading the general public to doubt the competence of both experts and politicians. The issue overflows and leaks out of the hands of established science and legitimate government.

3. *Intense co-production (Original)*

The issue is claimed by alternative experts, indirectly appointed by the general public. This creates a new and vigorous pathway of co-production which temporarily circumvents the political powers that be.

4. *Adaptation*

The conclusions of the alternative experts become the new established theories as accepted and internalised by the government.

If this pattern proves true, the original content of this thesis will be the idea that co-production can function with varying intensity, and that a new pathway can be opened when public opinion is ahead of government.

Literature Review

Neoliberal thinkers seem to always appear in histories of economics or political science in general. Significantly less has been written in the scientific literature about the history of neoliberal intellectual development. Three works have been found to stand out for their relevance, rigour, and ideological detachment.¹⁵ Together, these three works provide the historical background and chronology of the thesis. What has been avoided is the scientific literature which either critiques or praises neoliberal thought.¹⁶ Such literature seems to always deal with recent matters of economic and political development which rarely touch upon those eventful decades in the middle of the 20th century.

The problem of expertise is thoroughly researched in the field of science and technology studies. However, the examples seldom refer to experts in the social sciences. Two exceptions appear in the literature: a brief account of expertise within social engineering¹⁷ and one whole book regarding the problem of economic expertise.¹⁸ Naturally, the latter seems highly relevant, but the content mostly deals with economic expertise as it relates to isolated issues like eugenics or Soviet central planning. The story unfolds through cases and examples, from which the authors draw some broad conclusions. It is useful but far from exhaustive.

Neoliberalism was a popular movement and so it would seem consistent to look at the popular literature. This also makes sense given that most of the source literature in this thesis was written for a popular audience by intellectuals as defined above.¹⁹ Naturally, the tone of popular literature is sharper and more normative than academic literature. Most of the popular literature is vehemently against neoliberalism while some is equally passionate for the movement.²⁰

¹⁵ Yergin, Daniel and Stanislaw, Joseph. *The Commanding Heights: Battle for the World Economy*. New York: Free Press, 2002

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

Mirowski, Philip and Plehwe, Dieter (eds.). *The Road from Mont Pelerin: the making of the neoliberal thought collective*. Harvard University Press, 2009.

¹⁶ Cahill, Damien and Konings, Martijn. *Neoliberalism*. Cambridge: Polity Press, 2017

Eagleton-Pierce, Matthew. *Neoliberalism: the key concepts*. London: Routledge, 2016.

Saad-Filho, Alfredo and Johnston, Deborah (eds.). *Neoliberalism: a critical reader*. London: Pluto, 2005.

¹⁷ Sundqvist, Göran and Soneryd, Linda. *Vetenskap och demokrati*. Lund: Studentlitteratur, 2019, p. 87

¹⁸ Levy, David M. and Peart, Sandra Jay. *Escape from democracy*. New York: Cambridge University Press, 2017.

¹⁹ Hayek, Friedrich. *The Road to Serfdom*. London: Routledge, 1944.

Friedman, Milton. *Capitalism and Freedom*. University of Chicago Press, 1962.

Friedman, Rose D. and Friedman, Milton. *Free to Choose: a personal statement*. San Diego: Harper, 1980.

²⁰ Klein, Naomi. *The Shock Doctrine: the rise of disaster capitalism*. New York: Metropolitan, 2007.

There is an interesting pattern in the popularity of different works. The most sold popular titles against neoliberalism are quite recent while those supportive of neoliberalism are still the most famous works of the original neoliberals.²¹ It can be claimed that the discussion in the popular literature is held between dead neoliberal intellectuals from the middle of the century and living critics like Noam Chomsky or Naomi Klein.

One notable surprise emerged from the popular literature. Nobel laureate Paul Krugman traces the neoliberal shift not from the intellectuals of neoliberalism but from what he calls movement conservatism which originated among evangelical Christians in the United States. Krugman's argument is that American conservatives with authoritarian tendencies executed something like a prolonged coup d'état where they first took over the Republican party and then mobilised Christian voters to win control of the United States government. Part of the aim of movement conservatives, according to Krugman, was to undo the social and economic system of the New Deal, instituted by President Franklin D Roosevelt.²²

Krugman's account is undoubtedly interesting for further study but much too partial compared to existing literature; he does not even mention the intellectual collectives which founded neoliberalism. On the other hand, Krugman does write a lot about William F Buckley Jr who did host television talk shows where he interviewed neoliberal intellectuals. As a whole, Krugman's argument is noted here but not presupposed.

Chomsky, Naomi. *Requiem for the American Dream: the 10 principles of concentration of wealth and power*. New York: Seven Stories, 2017

Irwin, Douglas A. *Free Trade Under Fire*. Princeton University Press 2020.

²¹ Amazon bestseller list in Economic Theory (accessed Jan 11, 2021): https://www.amazon.com/Best-Sellers-Books-Theory-Economics/zgbs/books/2602/ref=zg_bs_nav_b_3_2581

²² Krugman, Paul. *The Conscience of a Liberal*. New York: Norton, 2007, pp. 101-123.

Purpose, Scope, and Research Question

The purpose is to investigate a possible pattern of co-production between economic science, the political system, and the general public. The pattern in question is the four stages of co-production described in the theoretical framework. The ambition is not to establish the framework as a general and universal pattern but to point to a case where a new pathway of co-production might have appeared: that between experts and the general public due to overflow.

The case to be studied is the neoliberal shift of the late 20th century. The reader might reasonably ask why this particular shift should be studied. Why not the shift from classical to Keynesian economics in the early 20th century? Why not the shift from mercantilism to the laissez-faire economics of Adam Smith? The answer lies in the development of economic science and the economist as an expert.

The role of the expert as a bridging figure in the co-productionist view demands that the expert comes from a scientific background. The status of economics as a science was unclear before the second half of the 20th century. Economics was seen partly as a political art and a philosophy with scientific tendencies. It was the mathematisation of economics in the second half of the 20th century which transformed the economist from a broadly educated intellectual to a trained specialist.²³

Consequently, one can only speak confidently of economic expertise after the mathematisation of economics – from the second half of the 20th century and onward. This would disqualify any attempt at earlier co-productionist case studies involving economics, which is unsurprising because the perspective of co-production is sprung from the study of late modernity in which techno-scientific formalisation is presumed.

The chronological starting point of the thesis is the Keynesian paradigm of economics which is believed to have started during the Great Depression of the 1930s. The end point must be the early 1980s when neoliberal ideas gained so much popularity that their political proponents could win national elections, primarily Margaret Thatcher in the United Kingdom and Ronald

²³ Debreu, Gerard. The Mathematization of Economic Theory. *The American Economic Review*, vol. 81, no. 1, 1991, pp. 1–7.

Reagan in the United States. Closer issues of policy analysis and to what extent said political leaders were neoliberal lay outside the scope of this thesis.

Geographical delimitations have also been avoided. The literature indicated that several countries, in their own ways, made shifts from social liberalism to neoliberalism in varying degrees. But the economic and political dominance of the United States in the middle of the 20th century makes it the most urgent case to be studied. Most of the historical documents available for the purpose pertain to American matters even when written by non-Americans. Some references to conditions in the United Kingdom will be mentioned but rarely analysed. Hence, without a strict geographical delimitation, the de facto choice by omission is primarily the United States.

The research question should be formulated in such a way that its answer either confirms or denies the existence of an alternative pathway of co-production: that between experts and the general public, circumventing the political process. It should also be made clear that the pattern is expected to have appeared in the 1970s. A second research question should be added to reach a conclusion about what could have caused the new pathway of co-production, if any. It should either confirm or deny that overflow and leakage could have caused the new pathway. The following should suffice.

Research questions – What was the pattern of co-production between expertise, the general public, and the political order in the 1970s? If there was an alternative pathway of co-production, how can it be described and explained?

In the conclusions, if an alternative pathway is confirmed, it should be discussed whether the political process was circumvented.

Method

Given the theoretical framework and the research question, the first objective is to find signs of overflow and leakage according to Callon's theory. Comparative and qualitative content analysis should reveal what economic issues government-appointed experts neglected and what issues caused discontent among the general public.²⁴ If the same economic issue that caused discontent was neglected by government experts, then it can be concluded that the experts framed the issue too narrowly. The next step is a discourse analysis which indicates that the general public doubts the competence of government and its appointed experts; that would prove overflow.²⁵

Further content analysis, including a small case of simple image analysis, will be used to determine whether any new experts emerged and especially how their expertise was legitimised without government sanction. The frequency and form of appearances in mass media will be consistently described. If an economic scientist or intellectual appears more frequently and is presented with such language and imagery as to legitimise his expertise, it will be concluded that he did become an expert appointed by the general public. The frequency of appearances guarantees that he was not a failed and short-lived mass media attempt to construct an expert in the public eye.

The content of the expert advice will be subject to a discourse analysis which will determine whether the expert's statements are positive or normative.²⁶ If the expert speaks in the language of what ought to be done, it will be taken as evidence of the undemocratic use of expertise. The flipside of normative expert advice is the reception in the political process – that last stage in the theory chapter in which the government adapts to the new expertise by internalising it. The method for this last stage is policy analysis, which is a kind of content analysis. If there is a basic coherence between the advice of the alternative expert and the new policy of government, it will be interpreted as consummated adaptation – stage four in the theoretical framework.

²⁴ Gustavsson, Martin and Svanström, Yvonne (eds.). *Metod. Guide för historiska studier*. Lund: Studentlitteratur, 2018. (Scanned copy. No page numbers available) (Section on content analysis)

²⁵ *Ibid*, (section on discourse analysis)

²⁶ *Ibid*

Material

For the chapter on the Keynesian paradigm, the source material is letters and documents by John Maynard Keynes and the Franklin D Roosevelt administration on issues regarding economic policy, especially the Great Depression. This includes *The General Theory* by John Maynard Keynes and his open letter to Franklin D Roosevelt in 1933.²⁷

The chapter on neoliberalism will include some of the classics of neoliberal reading, as determined by the academic literature.²⁸ These works were all in the genre known today as non-fiction, intended for a popular audience. Naturally, they were all normative intellectual works – written to explain neoliberal ideas and turn public opinion to their favour. Their common theme is the necessity of a free market in a free society.

The chapter on the crises of the 1970s will rely on government documents and speeches by politicians as source material for policy analysis. Further academic and popular literature will be used for definitions and to establish a chronology of events.²⁹

²⁷ Keynes, John Maynard. *The General Theory of Employment, Interest, and Money*. London: Palgrave Macmillan, 1936.

Keynes, John Maynard. "An Open Letter to President Roosevelt" (1933). (Accessed on Jan 10, 2021) <http://la.utexas.edu/users/hcleaver/368/368KeynesOpenLetFDRtable.pdf>

²⁸ Hayek, Friedrich. *The Road to Serfdom*. London: Routledge, 1944.

Friedman, Milton. *Capitalism and Freedom*. University of Chicago Press, 1962.

Friedman, Rose D. and Friedman, Milton. *Free to Choose: a personal statement*. San Diego: Harper, 1980.

²⁹ Jacobs, Meg. *Panic at the Pump*. New York: Hill & Wang, 2017.

Historical Background: The Keynesian Paradigm

John Maynard Keynes was very much an economist of his age in the early 20th century. He was mathematically talented but economic science had not yet undergone strict formalisation and the subject of economics was not completely distinguished from politics, business, or social life in general. Keynes was a member of the Bloomsbury group – a set of writers, artists, and philosophers who met regularly in the Bloomsbury district of London. People who knew him described Keynes as an astonishing intellectual who was equally at home in discussions of culture, academia, and the financial markets in which he dabbled successfully.³⁰

What may surprise contemporary readers is that Keynes was actually a liberal in the continental sense – believing in the tenets of a free society, including the free market. As a child of the first age of globalisation, Keynes could easily recall a time of people placing telephone orders on goods from the far reaches of the world and having them delivered to London. The difference between Keynes and similarly liberal minds was that he understood the fragility of that age of prosperity. The First World War came as no surprise to Keynes and by the end of it, he had so excelled in his profession that he was called upon to attend the Paris Peace Conference in 1919.³¹

Frustrated by the malicious direction of the peace talks and troubled by his own health, Keynes withdrew from the conference and wrote *The Economic Consequences of the Peace*, which also made him famous. There, Keynes described the economic content of the peace treaty as Carthaginian – demanding the destruction of the German economy as a condition for peace. He predicted that the unreasonable cost of war reparations placed on Germany would cripple its economy and lead to such a widespread sense of humiliation that it would provoke a desire to retaliate, mainly against the French. This prediction proved true and demonstrated Keynes' understanding of how economic concerns are deeply intertwined with social and political affairs. Keynes' mathematical abilities, his wide intellectual interests, and his experience with disaster economics would all inform his insight to the Great Depression of the 1930s.³²

³⁰Yergin, Daniel and Stanislaw, Joseph. *The Commanding Heights: Battle for the World Economy*. New York: Free Press, 2002, pp. 21-24

³¹Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, pp. 182-189

³² Ibid

The General Theory

Classical economics was built on the expected rationality of the self-interested individual – homo oeconomicus. As long as people were mostly rational, the economy could be predictable with simple mechanical laws, like the law of supply and demand. It followed in classical economics that supply and demand, given the rationality of individuals, would produce an equilibrium at which long-term full employment is inevitable. In short, classical economics contained no persuasive answer as to what caused the Great Depression.³³

Keynes' argument in *The General Theory* was, contrary to classical economics, that markets do not naturally tend towards full employment. In times of crisis and uncertainty, Keynes believed that ordinary people would have a lower propensity to consume. In plain language, worried people would hold on to their money and buy less of goods and services until they felt secure that better economic times would come. This low demand for goods and services would lead to a lower-than-normal equilibrium price and stay there due to uncertainty. The low equilibrium price would mean lower sales for businesses and consequently people would lose their jobs. The result would be equilibrium prices coupled with high unemployment: completely impossible in classical economics but perfectly demonstrable according to Keynes.³⁴

The short-term solution for a shortage of a demand is for some agency to raise demand by fiat. The only agency with that capability is the government. Essentially, the government should restore certainty in the economy by employing people en masse, thereby forcing the economy to return to full employment. In other words, the government would spend money on large scale projects like public works – bridges, roads, dams, and such – to temporarily employ those people who lost their jobs in the depression. Those newly re-employed people would then use their salaries to buy goods and services, thereby raising demand in the entire economy. The new and high demand level would restore high equilibrium prices, which would make businesses recover and re-hire employees. At that point, the economy would return to growth and the government would step back according to Keynes.³⁵

³³Keynes, John Maynard. *The General Theory of Employment, Interest, and Money*. London: Palgrave Macmillan, 1936, pp. 5-16.

³⁴ *Ibid*, 79-116

³⁵ *ibid*

In the long-term, Keynes argued for counter-cyclical government spending. This meant that the government would accumulate a surplus through taxes in good times of economic growth, and then spend that money during recessions to restore faith in the economy, acting against the fluctuations of the business cycle. The idea that government should spend money in a recession was controversial. Classical economics, and human intuition, dictates that bad times require budget restraint. However, Keynes argued that tightening the government budget during a recession would only exacerbate the crisis and needlessly prolong the process of recovery. Taxation, government spending, and the previously known instrument of monetary policy – how much money the central bank should print and at what interest rate – should be used together, argued Keynes, to ensure high employment and stable growth in the economy.³⁶

In short, the government would be given extensive control over the economy. This is what confounds those who read biographies of John Maynard Keynes. How could a self-proclaimed believer in classical liberalism combine his belief in freedom with the proposition that government should intervene in the economy?

For Keynes, the explanation was rather simple; liberalism had to be saved from itself. The severity of market failure during the age of high industrialism was greater than in the times of Adam Smith or John Stuart Mill. A failed economy in the 20th century could spiral down to such levels of discontent that it destabilises the entire political system, paving the way for undemocratic, illiberal governments. The government should act as a guarantor of last resort to the economic system in order to preserve liberal democracy and personal freedom. To Keynes, this was only a pragmatic and contemporary approach to liberalism.³⁷

Convincing Roosevelt

In 1933, before writing his *General Theory*, Keynes wrote an open letter to the newly sworn-in President Franklin D. Roosevelt. The letter contained the contours of Keynesian economic theory: pointing out a shortage of demand as the main culprit of the Great Depression and

³⁶ Ibid, pp. 21-30

³⁷ Yergin, Daniel and Stanislaw, Joseph. *The Commanding Heights: Battle for the World Economy*. New York: Free Press, 2002, pp. 21-24

urging the new president to avoid austerity measures. It is doubtful that President Roosevelt gave serious thought to Keynes' policy suggestions. Roosevelt was already caught in a seesaw where on the one hand, he had given a campaign promise to balance the budget through austerity, in line with classical economic theory.³⁸ On the other hand, Roosevelt believed in temporary poverty relief programs which would inevitably cause a budget deficit. Roosevelt explained the matter in a campaign speech in 1936.

To balance our budget in 1933 or 1934 or 1935 would have been a crime against the American people... When Americans suffered, we refused to pass by on the other side. Humanity came first... We accepted the final responsibility of Government, after all else had failed, to spend money when no one else had money left to spend.³⁹

With this statement, Roosevelt proved that he stood against the classical economic orthodoxy of balancing the budget. The acceptance of deficit spending to remedy the effects of recession was a small but meaningful step towards Keynesian economics. But Roosevelt was not a convinced Keynesian and he did try to balance the budget in the following years, leading to another recession in the late 1930s. Simultaneously, Roosevelt instituted a whole set of programs, government agencies, regulations, and reforms to end the recession of the 1930s. This policy of government involvement was named The New Deal and it showed that Roosevelt was willing to take another large step in the Keynesian direction: heavy government intervention to restore economic certainty. It was during this time that Roosevelt began to seriously consider the ideas of John Maynard Keynes.

To many who have pleaded with me for an immediate balancing of the budget, by a sharp curtailment or even elimination of government functions, I have asked the question: "What present expenditures would you reduce or eliminate?" And the invariable answer has been "that is not my business – I know nothing of the details, but I am sure that it could be done." That is not what you or I would call helpful citizenship.⁴⁰

³⁸ Address of Governor Franklin D. Roosevelt. Forbes Field, Pittsburgh, Pennsylvania. Oct 19, 1932. (Accessed Jan 10, 2021) https://www.fdrlibrary.org/documents/356632/390886/smCampaign_10-19-1932.pdf/eda3f690-4176-4d1f-8fbf-7b432964f34f

³⁹ Speech of the President. Forbes Field, Pittsburgh. Oct 1, 1936 (Accessed Jan 10, 2021) https://www.fdrlibrary.org/documents/356632/390886/smCampaign_10-1-1936.pdf/f10a1d08-6eaf-466e-86e8-99b4678c69bc

⁴⁰ Annual message to congress. Jan 3, 1938. (Accessed Jan 10, 2021) https://www.fdrlibrary.org/documents/356632/390886/smAnnual+Message_1938.pdf/cbd75ed8-a5fa-4e47-a1c2-fe56f97649d7

The New Deal contained much that was in line with Keynesian ideas, but it lacked the level of government expenditure that Keynes had proposed. Nonetheless, Roosevelt had taken many political steps towards Keynesian economics and would take a large ideological step in his State of the Union address in 1941, later known as the Four Freedoms Speech. There, Roosevelt declared that people everywhere ought to have a freedom of speech and worship, freedom from fear, and a freedom from want.

In classical economics, scarcity was treated as an axiomatic truth. No entity, and certainly not any government, could enforce a freedom from want in the classical view. The idea that people should have a freedom from want corresponded with the Keynesian idea that one could only speak of freedom in a liberal democracy if it entailed a freedom from desperate poverty. It is conceivable that Roosevelt came to this conclusion partly through the private mail correspondence he had with Keynes in the late 1930s.⁴¹

By the end of his presidency, Roosevelt was in complete agreement with Keynes as evidenced by his State of the Union address in 1944, named The Second Bill of Rights.

We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence. Necessitous men are not free men. People who are hungry and out of a job are the stuff of which dictatorships are made.⁴²

Convincing the World

Through Roosevelt and his advisors, Keynesian ideas had prevailed in the United States and elsewhere. Naturally, Keynes was invited to the Bretton Woods conference in New Hampshire in 1944 where the allied nations of the Second World War were to reach an agreement on a post-war economic system. Keynes' influence at the time was unrivalled but national interests were non-negotiable and Keynes' vision of a global monetary system with an international

⁴¹ John Maynard Keynes to Franklin D. Roosevelt. Feb 1, 1938. (Accessed Jan 10, 2021) https://www.fdrlibrary.org/documents/356632/390886/smFDR-Keynes_1938.pdf/e6a5bbc6-db07-4d65-8576-e4ea058c5641

⁴² State of the Union Address, January 11, 1941. (Sound recording) (Accessed Jan 10, 2021). <https://millercenter.org/the-presidency/presidential-speeches/january-6-1941-state-union-four-freedoms>

currency was not realised. However, it was decided at the Bretton Woods Conference that an International Monetary Fund should be created, as should a Bank of Reconstruction and Development, now known as the World Bank. It was also decided that all hard currencies in the world would be tied to the US dollar which would be redeemable in a fixed amount of gold. This would prevent economic nationalism – countries inflating their currencies to pay off debts and reduce deficits. John Maynard Keynes died in 1946 at age 62.

Keynesian economic theory, with deficit spending and acceptance of high inflation to prevent unemployment, would dominate Western economic thinking for decades after his death. Economic planning with heavy government involvement seemed to put an end to the boom and bust of business cycles. It was believed for a while that Keynesian theory had put a definite end to the age of economic uncertainty.

Historical Background: The Neoliberal Alternative

There were many who agreed with Keynes that liberalism was undergoing a crisis. Keynes' camp of social liberals supported the idea that government intervention was needed to guarantee a competitive economy and a free society while another camp considered it a precondition of a free society that there should be a free market. Both groups convened in Paris, a total of 26 intellectuals, in 1938 at the initiative of French philosopher Louis Rougier. Their conference was named the Walter Lippman Colloquium in English after American journalist Walter Lippman who wrote *An Inquiry into the Principles of the Good Society*⁴³ published in 1937. Lippman's understanding was that classical liberalism had lost its vision and was under attack by those who would rather offer security than freedom. Lippman believed that a revival of classical liberalism was necessary because all other ideologies were untenable in the long run.⁴⁴

What the intellectuals at the Walter Lippman Colloquium had in common, despite their differences, was their belief in a free society – broadly defined – as opposed to the communism and fascism of the time. It was at the Walter Lippman Colloquium that the term neoliberal was coined by German sociologist and economist Alexander Rüstow. The name neoliberal was intended to show an ambition to revive classical liberalism, and also to convey that laissez-faire economics was not the whole of the case.⁴⁵ Attending the conference was Austrian economist Ludwig von Mises and his disciple Friedrich August von Hayek. They were both on the free-market side of the debate, against the social liberals who condoned government intervention.⁴⁶

The Road to Serfdom

⁴³ Lippman, Walter. *An Inquiry into the Principles of the Good Society*. New York: Little, Brown, and Co, 1937.

⁴⁴ Denord, Francois in Mirowski, Philip and Plehwe, Dieter (eds.). *The Road from Mont Pelerin: the making of the neoliberal thought collective*. Harvard University Press, 2009, pp. 45-63.

⁴⁵ Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, p. 31.

⁴⁶ Denord, Francois in Mirowski, Philip and Plehwe, Dieter (eds.). *The Road from Mont Pelerin: the making of the neoliberal thought collective*. Harvard University Press, 2009, pp. 45-63.

Hayek was not as rigidly a free-market economist as his mentor. In fact, Hayek had been a mild socialist in his youth and famously admired the courage of socialists in daring to form and boldly pursue a grand vision for the world.⁴⁷ What both Hayek and Mises opposed was collectivism: the denial of the individual as the primary unit of social life. Mises wrote notoriously that “all rational action is in the first place individual action. Only the individual thinks. Only the individual reasons. Only the individual acts”.⁴⁸

For Hayek, the case to be made was much wider. In *The Road to Serfdom*, which Hayek wrote in English for a British audience while employed at the London School of Economics, he laid out the complete argument why anyone who believes in a free society should oppose economic planning, even of the milder Keynesian sort. Dedicating his book to “socialists of all parties”⁴⁹ Hayek claimed that even the most well-meaning socialist would, in setting up an ambitious government bureaucracy, create a concentration of power. Without realising it, the well-meaning person would thereby bring about the structure and preconditions of totalitarianism.

Inevitably, said Hayek, any well-meaning leader and his supporters would find themselves swiftly replaced by antidemocratic leaders and their mob rule. The centralised power structure, intended to cure unemployment and poverty to prevent totalitarianism, would play into the hands of the totalitarians. Even mild forms of government intervention, like social liberalism, would unavoidably drift towards centralisation of power and totalitarianism according to Hayek.

The Perils of Inflation

On a more technical note, Hayek worried about the inflationary nature of Keynesian economics. Deficit spending in the Keynesian theory would cause government debt which would force the government to print more money, causing inflation. The increased money supply would raise demand and cure unemployment but only in the short run while the economy was adjusting to the new inflation level. Over time, all individuals would begin to anticipate high inflation, adjusting prices and wages beforehand. The consequence, according

⁴⁷ Hayek, Friedrich. Intellectuals and Socialism. *University of Chicago Law Review*. Spring 1949.

⁴⁸ Mises, Ludwig von. *Human Action: a treatise on economics*. Auburn: Ludwig von Mises Institute, 1998.

⁴⁹ Hayek, Friedrich. *The Road to Serfdom*. London: Routledge, 1944.

to Hayek, would be endless and unsustainable inflation coupled with inevitably high unemployment. In neoliberal circles, this condition was called permanent inflation.^{50, 51}

Having lived through the hyperinflation of Germany and Austria in the 1930s, Hayek had vivid memories of the public unrest caused by inflation which wiped out the private savings of the middle class. For Hayek, Keynesian economics would end in permanent inflation and public discontent due to destroyed savings which would cause decline and unrest in all facets of society. To Hayek, Keynesian economics was contradictory to social stability in the long run. Privately, Hayek and Keynes were good friends who got to know each other when the London School of Economics was exiled to Cambridge due to the London bombings of World War II.

Creating an Intellectual Current

Hayek was also concerned that liberal ideas were being gradually forgotten and replaced in the world by totalitarianism on the one hand and Keynesian collectivism on the other. He wanted to mobilise liberal-minded thinkers to form an intellectual current for freedom. Hayek chose to create a conference in 1947 not unlike the Walter Lippman Colloquium, but in Switzerland on Mont Pelerín – pilgrim mountain. It was called the Mont Pelerín Society and would have regular meetings with discussions ranging from broad political philosophy to technical economics. There were some expected members, like Ludwig von Mises, and some unexpected like Austrian-British philosopher Karl Popper and Swedish political scientist and newspaper man Herbert Tingsten.

Hayek foresaw a long battle of ideas against collectivism and especially socialism. In his influential essay *The Intellectuals and Socialism* Hayek argued that intellectuals are not interested in technical details or practical difficulties, only in abstract visions not directly implementable. Intellectuals, according to Hayek, have a vested interest in promoting socialist ideas because only government can reasonably provide them with good jobs and prestige. Hayek predicted that the battle of ideas against socialist intellectuals would take decades.⁵²

⁵⁰ Spencer, Roger W. Inflation, Unemployment, and Hayek. *Federal Reserve Bank Letter, St Louis*. May 1975.

⁵¹ Meeting in Berlin, August 1956. *Mont Pelerín Society Records at the Hoover Institution*. [Soundbite]
<https://digitalcollections.hoover.org/objects/52835>

⁵² Hayek, Friedrich. Intellectuals and Socialism. *University of Chicago Law Review*. Spring 1949.

By the 1950s and onward, the locus of neoliberal intellectual development shifted away from Europe. The torch would be passed to the United States and especially to the department of economics at the University of Chicago to which Hayek relocated. One of the younger members of the Mont Pelerin Society, University of Chicago economist Milton Friedman, would prove himself most willing and able to take on the battle of ideas against socialism with fellow Chicago economists George Stigler and Gary Becker. Together and over decades to come, they criticised and deconstructed almost every bit of Keynesian economic theory while spreading the academic reputation of Chicago as the neoliberal centre of gravity. Some popular objections against Keynesianism were also heard. For instance, American journalist and fellow Mont Pelerin member Henry Hazlitt was also influential in his critique of Keynesian ideas.⁵³

Friedman Takes the Lead

In the early 1960s, Friedman was tasked by Hayek and others to write an American version of *The Road to Serfdom*. The result was Milton Friedman's neoliberal classic *Capitalism and Freedom*, published in 1962. There, Friedman made the same argument as Hayek that a free market is a necessary but insufficient condition of a free society. Friedman completed Hayek's argument with chapters on the democratic nature of consumer choice, the social responsibility of business, and many other issues which made *Capitalism and Freedom* a more exhaustive work of neoliberal theory than *The Road to Serfdom*.⁵⁴

The intellectual activity against Keynesianism did not bear fruit until the 1970s, following a cascade of economic crises. Neoliberal literature by the Mont Pelerin Society gained a wider readership and, surprisingly, the Swedish Riksbank awarded Friedrich Hayek the Nobel prize in economics in 1974 together with Gunnar Myrdal "for their pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social, and institutional phenomena"⁵⁵. Hayek's award was controversial but nonetheless it legitimised his neoliberal ideas, bringing him from the obscure margins of

⁵³ Van Horn, Rob and Mirowski, Philip in Mirowski, Philip and Plehwe, Dieter (eds.). *The Road from Mont Pelerin: the making of the neoliberal thought collective*. Harvard University Press, 2009, pp. 139-168

⁵⁴ Friedman, Milton. *Capitalism and Freedom*. University of Chicago Press, 1962.

⁵⁵ Communique before award. (Accessed Jan 10, 2021) <https://www.nobelprize.org/prizes/economic-sciences/1974/summary/>

economic science to the centre stage of economic policy. Two years later, Milton Friedman would win the same prize “for his achievements in the fields of consumption analysis, monetary history and theory, and for his demonstration of the complexity of stabilisation policy”.⁵⁶

Friedman’s award was even more controversial, and his ceremony was interrupted by a student protestor shouting “Friedman, go home!”. It was clear that neoliberalism provoked a passionate opposition but it held enough persuasive power to influence people and policy in the 1970s, at least in economic matters. Neoliberal academics like Friedrich Hayek, Milton Friedman, and Thomas Sowell appeared frequently on television talk shows. Being an African-American of a younger generation than Friedman, Sowell was often invited to speak on matters of racial discrimination.⁵⁷

By the end of 1977, married couple Rose and Milton Friedman had written a policy-oriented book on the merits of neoliberal thought named *Free to Choose*⁵⁸. Milton Friedman had also appeared in several television talk shows. Before *Free to Choose* was published, representatives of the Public Broadcasting Service (PBS) approached Milton Friedman to have it produced as a ten-part series of video lectures. Friedman accepted, filmed, and the series was aired on the PBS network in 1980. The format was a documentary-style lecture by Milton Friedman for half an hour followed by another half hour of discussion with invited guests, for and opposed to the arguments made in the lecture.⁵⁹

As Hayek predicted, it took decades of intellectual development to popularise neoliberal ideas. But it was not only the tireless work of intellectuals like Friedman that caused the shift in public opinion. Opportunity lies in crisis, and there were plenty of economic crises in the 1970s.

⁵⁶ Communique before award. (Accessed Jan 10, 2021) <https://www.nobelprize.org/prizes/economic-sciences/1976/press-release/>

⁵⁷ Sowell, Thomas. *A Personal Odyssey*. New York: Free Press, 2002

⁵⁸ Friedman, Rose D. and Friedman, Milton. *Free to Choose: a personal statement*. San Diego: Harper, 1980.

⁵⁹ *Ibid*, p. x.

Historical Background: Economic Crises of the 1970s

Nixon Shock

The tumultuous economic decade of the 1970s began with the Nixon shock in 1971. Global confidence in the value of the US dollar had dropped due to inflation and high deficit spending by the US government, partly because of the Vietnam War. This made many nations like West Germany and France demand to have their dollar reserves redeemed in gold. West Germany was first to leave the Bretton Woods Agreement. To prevent this downward spiral, US President Nixon declared over night that US dollars would no longer be redeemable in gold. Effectively, Nixon terminated the Bretton Woods Agreement without formally abolishing it. Shortly thereafter, many other nations followed suit and the Bretton Woods Agreement was rendered useless. Simultaneously, Nixon decided to suspend wage and price levels for 90 days to prevent inflation. Additionally, import duties were raised by ten per cent. The Nixon shock and its after-effects was precisely the kind of economic nationalism which was meant to be prevented by the post-war economic order.⁶⁰

The First Energy Crisis

The breakdown of the Bretton Woods system lowered the value of many currencies, most of all the US dollar, which caused a decrease in profits for oil-producing countries because oil was internationally priced in US dollars. The members of the Organisation of Petroleum Exporting Countries (OPEC) decided in 1971, following the Nixon shock, that oil would be priced in terms of gold instead of dollars from then on. In 1973, the Arab member states of OPEC executed an oil embargo against all nations thought to support Israel in the war against Palestine. This was the beginning of the first energy crisis which revealed the fragility of having an economy fuelled by oil. Oil prices shot up and exacerbated inflation in all sectors related to the oil industry. It is believed that the first energy crisis was a direct consequence of the Nixon shock.⁶¹

⁶⁰ Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, pp. 215-229

⁶¹ *Ibid*, p. 230.

Oil products had to be rationed and the effect was noticeable for ordinary people. As historian Meg Jacobs describes it “...the average citizen understood the energy crisis to mean a panic at the pump – the fear that we would not have enough oil to fill up our gas tanks, heat our homes, or run our factories. And whatever fuel we did have would go up and up in price”⁶². The energy crisis led Nixon to declare a national goal of energy independence by 1980.

Stagflation

Inflation was built into the Keynesian system. Keynes was very much aware that government spending would raise inflation and deficits but considered it an acceptable inconvenience for achieving full employment. The inverse correlation between inflation and unemployment was known as the Phillips curve, after New Zealand economist A.W. Phillips at the London School of Economics, and was thought to be scientifically sound. Much of Keynesian theory relied on the validity of the Phillips curve. Therefore, what happened in the 1970s confounded the Keynesian orthodoxy; inflation and unemployment rose and kept rising at the same time. The entire Keynesian thesis that a recession is essentially a shortage of demand became questionable. Evidently, this case of unemployment could not be fixed with more government spending. This condition, which the neoliberals foresaw and named permanent inflation, would be renamed as stagflation.⁶³

Malaise

The sum of these crises caused an economic malaise – a condition of vague and generalised illness of low productivity in the economy. Some disasters, like the energy crisis, had disappointing but easily observable causes – dependence on foreign oil. Others, like the general downturn in productivity and efficiency throughout the economy, was more worrying and elusive. Arthur Burns, chairman of the Federal Reserve, wrote to Nixon in 1973 “...many people, besides being concerned about inflation, are worried about the devaluation of the dollar, the deficit in our foreign trade, the decline of stock prices, the rise of interest rates, fraud on

⁶² Jacobs, Meg. *Panic at the Pump*. New York: Hill & Wang, 2017, p. 3.

⁶³ Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, p. 2.

the stock exchanges...shortfalls in government integrity”⁶⁴. The latter had to do with the Watergate scandal which ended Nixon’s presidency. The slowdown of productivity persisted throughout the decade.⁶⁵

The British disease

The British experience of the 1970s was much the same as in other Western nations but with a distinct frequency of general strikes. Trade unions were notoriously powerful throughout the United Kingdom in such disparate industries as coal mining, garbage collection, and undertaking. For ordinary people, the strikes meant that garbage would pile up in the streets, running errands like grocery shopping had to be done in the dark because electricians were on strike, and even dead bodies needed to be stored because undertakers were on strike. Public support for trade unions and, by extension, the labour party, fell sharply with the British disease of frequent strikes in the 1970s. It is believed that Margaret Thatcher’s election success in 1979 and subsequent hard line against unions was based on public discontent with trade union power during the 1970s.

The Second Energy Crisis

Another energy crisis unfolded in 1979 following the Islamic revolution in Iran causing the same detriment as the first oil crisis. Eventually, US President Jimmy Carter delivered what would be named the malaise speech. Although he never used the term, Carter conceded that the United States was going through a “crisis of confidence”. Much of the content of the malaise speech had to do with economic issues. For instance, he noted that the United States was still far from the goal of energy independence put forth by Nixon.

Carter’s policy decisions to resolve the malaise seemed weak and bureaucratic to the public, and destined to fail. Carter’s use of language – soft nationalism and calls to unity – had the

⁶⁴ Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, p. 229.

⁶⁵ Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, pp. 215-229

opposite of the intended effect. In many minds, the malaise speech confirmed that neither the president nor his advisors had a clear understanding of the situation. Jimmy Carter lost the presidency to Ronald Reagan after one term, shortly after the malaise speech.⁶⁶

⁶⁶ Yergin, Daniel and Stanislaw, Joseph. *The Commanding Heights: Battle for the World Economy*. New York: Free Press, 2002, pp. 46-48.

Analysis: Enter the Expert

The crises of the 1970s “created a policy vacuum into which neoliberal ideas flowed”.⁶⁷ The question to be answered here is how. If neoliberal thinkers had remained in academia or only written popular literature they would have been considered public intellectuals with the occasional Nobel prize. Their involvement in “technical details or practical difficulties”⁶⁸ unlike Hayek’s intellectuals made neoliberal thinkers something more than ordinary public figures. In Milton Friedman’s words:

the fact that there have been thinkers around who have been outlining free market alternatives will mean that those are now in the realm of the possible. They will be around to be picked up. In my opinion that is the real role of the thinker, not to produce the fundamental change.⁶⁹

One may wonder whether Friedman was satisfied in being the thinker in his own description. For instance, it is a fact that Friedman was an advisor to President Nixon who visited the White House in person even though Nixon remained a self-proclaimed Keynesian. In other words, Friedman was an appointed expert by the political establishment – a clear case of ordinary co-production. The use of language in the letters that Friedman sent to Nixon shows a mix of positive and normative economics. At times, Friedman spoke only in the language of what should happen: “The emphasis should rather be on the determination to stop inflation, even at high costs in unemployment...”.⁷⁰

Normative Discourse

A similar tone of normative language can be seen in Friedman’s letters to Treasury Secretary John Connally under the Nixon administration. For example, writing about the Bretton Woods Agreement, Friedman said to Connally “we do not need and should not seek special commitments from other countries about exchange rates” and “what we must avoid is making

⁶⁷ Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, p. 215.

⁶⁸ Hayek, Friedrich. *Intellectuals and Socialism*. *University of Chicago Law Review*. Spring 1949.

⁶⁹ Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, p. 220.

⁷⁰ *Ibid*, pp. 222-223

any such commitments ourselves”.⁷¹ There is even a letter which Friedman sent to Republican congressman Philip Crane in 1974 following the Watergate scandal, saying “I am delighted that you survived the recent holocaust and saddened as you are by the number of our friends who did not”.⁷² All of these excerpts show a level of involvement beyond that of an ordinary expert in the co-productionist view.

It is also known that Milton Friedman counselled Augusto Pinochet, leader of the military junta which overthrew the government of Salvador Allende. This is partly why Friedman’s Nobel prize was controversial and his ceremony interrupted. A group of young Chilean economists – known as the Chicago boys – who had been trained in the United States, some of them at the University of Chicago by Milton Friedman, were called to advise Pinochet on economic policy. They recommended the dictator to speak to Milton Friedman, which he did in person in 1975. Pinochet asked Friedman to draft a letter with detailed policy recommendations, which Friedman did.⁷³ Naturally, the language and the content of the letter is, at times, explicitly normative.⁷⁴

It could be argued that Friedman’s role as an expert in the Nixon administration was a weak case of ordinary co-production because his ideas did not persuade. But his policy advice to Chile was taken seriously and implemented. In Jasanoff’s terminology, Friedman had the institutional legitimacy of the University of Chicago and the Nobel prize, and he used the discourse of normative economics. In both Grundmann’s and Jasanoff’s theories of expertise, Friedman had the identity of the expert – appointed by political leaders and exercising an undemocratic influence. Therefore, it can be said that Friedman passed the first stage of co-production as described in the theoretical framework.

Claiming the Issues

The energy crises prompted politicians and their economic advisors to devise ration plans for gasoline and other oil products. From the perspective of orthodox Keynesian economists at the

⁷¹ Ibid, pp. 225

⁷² Ibid, p. 230

⁷³ Milton Friedman to Augusto Pinochet. April 21, 1974. (Accessed Jan 10, 2021)

<https://web.archive.org/web/20071031071137/http://www.cb.cl/newcbcl/Estudios/DetalleE.asp?Id=1297>

⁷⁴ Moffitt, Michael. Chicago Economics in Chile. *Challenge* 20, no. 4, 1977, pp. 34-43.

time, the shortage was a given fact and the issue was to be framed as a matter of oil distribution. By treating the oil shortage as a matter of distribution, economists and politicians aggravated the general public. The expectation among the citizenry was for the government to solve the energy crises, not to distribute the plight of shortage.⁷⁵ From Callon's theoretical perspective, Keynesian economic experts framed the matter too narrowly. The general public began to suspect that the government and its economic advisors were incapable of solving the problem, and so the matter could theoretically leak out of their hands.

So it did; Milton Friedman wrote an article for Newsweek during the first energy crisis where he blamed the US government for keeping oil and gas prices artificially low. Friedman argued that if oil prices had been allowed to move according to the laws of supply and demand, oil prices would have risen and encouraged domestic oil production in the United States. American oil producers would have been incentivised by market dynamics to create the oil independence which no politician could deliver through government action. Thus, the entire energy crisis could have been avoided.⁷⁶

Friedman's article was reprinted for several publications and his argument presented in television news stories.⁷⁷ It can be said that Milton Friedman, by way of mass media appeal, caught the issue of energy crisis while it overflowed and leaked out of the hands of orthodox economists and government authority. Without being appointed by government in this issue, Friedman managed to shape public understanding about the causes of the energy crisis. This was a direct pathway of co-production between Friedman and the general public. His expertise was constructed together with ordinary people without government involvement, and it was only the beginning of his mass media identity as expert.

As for stagflation and malaise, we know that the longer a matter remains unsolved and open for public debate, the lower the confidence will be in those authority figures expected to solve it. The economic jargon used by government experts, for instance by opponents in Friedman's television show *Free to Choose*, is factual and technical; accusations of poor fiscal and monetary policy are thrown around between government experts without anyone defining

⁷⁵Jacobs, Meg. *Panic at the Pump*. New York: Hill & Wang, 2017, pp. 235-270.

⁷⁶Friedman, Milton. *Why Some Prices Should Rise*. *Newsweek*. Nov 19, 1973.

⁷⁷Yergin, Daniel and Stanislaw, Joseph. *The Commanding Heights: Battle for the World Economy*. New York: Free Press, 2002, pp. 132-34.

them.⁷⁸ No one, except Milton Friedman, speaks of the plight of ordinary people in understandable language. It seems, from the secondary literature, that this was a typical pattern.

Manufacturing Expertise

In relation to the theoretical framework, the issues of stagflation and malaise were so narrowly framed by government experts that they did overflow and leak into the hands of alternative expert Milton Friedman who did claim them. A still image from *Free to Choose* should illustrate, visually, Friedman's role in the debates.⁷⁹



(Still from episode 1. Friedman in the foreground.)

With image analysis, one always runs the risk of over-interpretation but it should be clear that the position of Friedman and the camera angles affirm his status as an authority. Friedman's style of discussion, especially with less knowledgeable guests, is rather Socratic where he encourages the opponent to finish his line of thought. By making the opponent continue his argument, Friedman either reveals the error in the opponent's reasoning or makes him see that he agreed with Friedman all along. It is evident that Friedman was a teacher. In front of a

⁷⁸ Episode 9 of *Free to Choose* television series. (Accessed on January 17, 2021)

<https://www.youtube.com/watch?v=jE7zxo61Xc8>

⁷⁹ *Free to Choose* television series in full. (Accessed on Jan 10, 2021)

<https://www.youtube.com/watch?v=D3N2sNnGwa4&list=PL4742023192B69941>

television audience, this Socratic dialogue would further legitimise Friedman, manufacturing his role as an expert.

In his books, articles, and television appearances, Friedman proved himself competent in all those issues which confounded Keynesian economists. Drawing from neoliberal research on permanent inflation, Friedman could persuasively explain that stagflation was caused by ill-informed government interference; consistently printing too much money made people anticipate high inflation and demand wage raises, which prevented new employment. Malaise was described as a case of too much regulation preventing a healthy economy from achieving efficiency, thereby impoverishing everyone. Friedman exuded knowledge and capability where government experts showed ambiguity and narrow-mindedness.

Perhaps Friedman's neoliberal narrative would have been less convincing had it not been fresh and unfamiliar to a nation steeped in Keynesian theory. And clearly, his civil manner and clarity of mind must have been disarming. Altogether, one can reasonably assume that Milton Friedman did open an alternative pathway of co-production between science and the general public without being appointed by government. By speaking directly to the public in a time of multiple economic crises, Milton Friedman initiated a phase of intense co-production where he rapidly spread ideas from the forefront of economic science to ordinary people. This corresponds to stage three in the theoretical framework: intense co-production.

Shaping Long-Term Policy

We know that Friedman served as an advisor to both Margaret Thatcher and Ronald Reagan and informed their economic agendas before they were elected.⁸⁰ Reagan's economic policy, known as Reaganomics, contained precisely those goals that Friedman proposed; balance the government budget, cut taxes across the board, deregulate industries, and print less money. In reality, Reagan did not balance the government budget, he increased the deficit. But the tax cuts, deregulations, and low inflation targets have not been rolled back by any of Reagan's predecessors. It can therefore be concluded that most of Friedman's economic policy suggestions did become internalised by the government, through elections, and have been in

⁸⁰ Ebenstein, Lanny. *Milton Friedman: A Biography*. London: Palgrave Macmillan, 2007, p. 207.

place ever since. This completes stage four in the theoretical framework where government adapts to the new theories by the alternative expert.

Ordinary Intellectuals

It should be said that Thatcher and Reagan were also ideologically influenced by Hayek. It is known that Thatcher attended Hayek's lecture at the Institute of Economic Affairs in London, 1975. They spoke for roughly half an hour afterwards but there is no evidence of Hayek giving direct policy advice.⁸¹ Notably, there was a party meeting where Thatcher slammed a copy of *The Constitution of Liberty*⁸² on a table and exclaimed "this is what we believe!"⁸³

Even in his television appearances, Hayek's rhetoric was more in line with positive economics – more philosophical, and more all-round academic than Friedman's. For this reason, it should be concluded that Hayek remained a scientist and an intellectual, and did not become an appointed expert. The same can be said of Thomas Sowell, who did become a public intellectual and an authority on issues of racial discrimination, but was not directly involved in policy making. The closest Sowell came to policy was an offer to take the position of Federal Trade Commissioner, which he declined. Instead, Sowell became a senior research fellow at the Hoover Institution at Stanford University where he has been since.⁸⁴

Other neoliberals whose ideas arguably did affect policy were George Stigler, Gary Becker, and Ronald Coase. Stigler and Becker developed the theory of regulatory capture where they managed to prove that firms in government regulated industries used the conditions of regulation at the disadvantage of consumers rather than protecting them as the regulation intended.⁸⁵ Ronald Coase developed the field of the economic analysis of law which changed

⁸¹Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton University Press, 2012, pp. 254-268

⁸² Hayek, Friedrich. *The Constitution of Liberty*. University of Chicago Press, 1960.

⁸³ Ranelagh, John. *Thatcher's People: An Insider's Account of the Politics, the Power, and the Personalities*. London: Harper Collins, 1991, p. ix.

⁸⁴ Sowell, Thomas. *A Personal Odyssey*. New York: Free Press, 2002.

⁸⁵ Stigler, George. The Theory of Economic Regulation. *The Bell Journal of Economics and Management Science*. Vol 2, no 1, 1971.

legislation regarding property law in many countries.⁸⁶ However, none of these scientists became appointed experts by the general public, let alone public intellectuals.

General Pattern of Co-production

Consequently, the general pattern described in the theoretical framework applies only to Milton Friedman. Below is an illustration of the coherence between the theoretical framework and the case of Milton Friedman.

1. Normal co-production (Jasanoff)

The ordinary pathways of coproduction – institutions, representations, discourses, and identities – are working mostly as described by Jasanoff.

- *Friedman has the identity of a government-appointed expert in the Nixon administration, institutionally affiliated with the University of Chicago. He uses the discourse of normative economics.*

2. Overflow and leakage (Callon)

An issue arises which the appointed scientific experts frame too narrowly, leading the general public to doubt the competence of both experts and politicians. The issue overflows and leaks out of the hands of established science and legitimate government.

- *Government experts spoke about the energy crises, stagflation, and malaise in a way that did not resonate with the general public, causing distrust in their expertise.*

3. Intense co-production (Original)

The issue is claimed by alternative experts, indirectly appointed by the general public. This creates a new and vigorous pathway of co-production which temporarily circumvents the political powers that be.

- *Friedman claims the issues of the energy crises, stagflation, and malaise by writing about them in newspapers and speaking about them in television shows. His frequent appearances indicate that he was implicitly appointed by the general*

⁸⁶ Cooter, R.D. The Coase Theorem. in Eatwell, J. Milgate M., and Newman, P. (eds) *Allocation, Information and Markets*. London: Palgrave Macmillan, 1989.

public. The mass media platform creates a direct and intense pathway between Friedman and the general public with a rapid discharge of neoliberal ideas.

4. Adaptation

The conclusions of the alternative experts become the new established theories as accepted and internalised by the government.

- *Friedman directly affects the policies of Ronald Reagan and Margaret Thatcher. When they win elections, Friedman's theories become government policies. By remaining largely unchanged to this day, Friedman's theories are internalised.*

Conclusions

Did Milton Friedman circumvent the political process? By taking his case directly to the general public, Friedman certainly made the attempt. By the popularity of his economic policy suggestions in general elections, it must be concluded that he succeeded for the most part. That is well beyond the proper democratic influence of any unelected person. The neoliberal shift with the expertise of Milton Friedman indicates that the separation of science and politics, representatives and public, is possibly less robust than we casually assume.

The implication in the question of circumventing the political process is that such interference is unwanted. It can be said, in the case of neoliberalism, that a large part of the general public wanted to hear the neoliberal alternative to Keynesianism and that public opinion was ahead of policy. The accusation could be made that it was the rigidity and negligence of the government that enabled Milton Friedman to abuse his mandate as expert. One could argue that to prevent such an abuse of power, democratic governments should be more astute to the general mood of their constituents.

It was French sociologist Bruno Latour who claimed that scientists may seek unexpected alliances due to frustrations with their own peers.⁸⁷ It is feasible that Friedman was frustrated with the Nixon administration and its band of Keynesian policy advisors. The opportunity to side-step the government and seek an alliance with the general public should have been enticing. After all, a belief in the narrative of individual action against listless collectivism underlies all neoliberal theory. Television especially gave Friedman a rare opportunity to speak to individuals and make the whole case, uninterrupted, as he frequently did in college classrooms.

Relative Space of Co-production

We can imagine history as the space in which co-production occurs. But the space is not stable in the Newtonian sense where political and scientific institutions move about like celestial

⁸⁷ Latour, Bruno. *Pandora's Hope: Essays on the Reality of Science Studies*. Harvard University Press, 1999, pp. 91-96

bodies. Instead, we should see the space as relative – bending and morphing with the events of history, just as gravity bends space in astrophysics. Some historical circumstances, like economic crises, can bend history in a way that shortens the ideological distance between an economic scientist like Friedman, and the frustrated voter. The shortened distance creates an opportunity to open a wormhole – an intense pathway of co-production – between such unlikely allies as a neoliberal economist and an ordinary voter.

The final conclusion is twofold.

- 1) The nature of co-productionist pathways varies with historic circumstances.
- 2) A pathway of co-production between expert and public, without government, should be considered.

Further research may study several alternative pathways of co-production, including that between expert and business establishment. By identifying such pathways, we may begin to discuss the legitimacy of authority in democratic societies. The map of how scientific power seeps into social life is yet to be completely charted.

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