

Lavoie, Marc

## Book Review

Book review: Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown* (, London, UK 2013) 384 pages

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## Book review

Mirowski, Philip (2013): *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown*, London, UK (384 pages, hardcover, Verso, ISBN 978-1-78168-079-7)

Marc Lavoie  
University of Ottawa, Canada

In his new book, Philip Mirowski vents the frustrations that a lot of us have probably experienced but could not express with such irony, scholarship and literary exuberance. Why is it that neoclassical economic theory and neoliberal economic policies have survived so well in the aftermath of the global financial crisis, when, perhaps for a period of a year, many observers were anticipating their demise? Indeed, a rather pessimistic Mirowski affirms that the neoliberals have come through in an even stronger position than the one they held before the crisis. Zombie economics, to use the expression suggested by John Quiggin (2010), is not dead, but alive and well. One problem, as seen by Mirowski, is that even some of those whom one would expect to reject zombie economics seem to have been infected by the zombie virus (Quiggin included), as they assert that there is no such thing that can be called neoclassical economics, claiming that any heterodox innovation has already been incorporated in one way or another into some orthodox formal model, or that complexity, imperfect competition, asymmetric information, altruism and especially behavioural economics would salvage the orthodoxy from any critique about equilibrium analysis or an over-extended rationality.

Before attempting to answer why neoclassical theory managed to get through the crisis unscathed, Mirowski devotes a couple of chapters to the meaning of the term ‘neoliberalism’. He insists that present-day neoliberalism must not be confused with classical liberalism, *à la* Adam Smith, nor must it be confused with libertarianism. For Mirowski, the Rosetta Stone to understanding Neoliberalism and identifying neoliberal thinkers is the Mont-Pèlerin Society, created in 1947, and constituted as a closed and hand-picked debating society. The various members of the Society through time, as well as their associates and thinkers with some tie to the organization, are all part of what Mirowski calls the Neoliberal Thought Collective (NTC), which includes Hayekian legal views, Chicago-style neoclassical economics and German Ordoliberalism. The NTC has been able to spread its ideas by establishing organizations outside standard academia – that is, by relying on special-purpose foundations devoted to the economic ‘education’ of the public. More than 100 newly created neoliberal think-tanks, apparently unrelated but often benefiting from the same financial sources, were then showered with money.

Mirowski provides what he calls a short course in neoliberal economic doctrines, giving a list of 13 statements that define the NTC. I came out somewhat puzzled by these 13 commandments, as some of the statements seem to contradict each other, this no doubt being caused by the conflict between the three strands of NTC already referred to. For instance, Chicago economists (and their New Keynesian cousins) would refer to market failures, externalities and incomplete markets while Hayekians would argue instead that such things are not possible since markets provide the best and all the information

that can be acquired, and hence that if a failure has occurred it must be because of some government intervention in the markets. These apparently opposite positions are reconciled, however, by proposing the creation of new markets to fix crises caused by market failures.

Mirowski insists, as have others, that the NTC project is not to destroy the State; rather the project of NTC adherents is to control the State to make sure that the State creates the conditions that are necessary for the NTC project to be imposed on the entire society and on all countries. Thus neoliberals are not against all government interventions: they are just opposed to those that would run counter to freedom as defined by neoliberals, for instance the freedom for capital to flow freely across borders. Another interesting feature of the NTC is that income inequality is not an unfortunate by-product of capitalism; rather, it is the motor for progress and hence any attempt to modify income distribution arrived at by market forces might become the cause of a crisis.

My reading of Mirowski is that he essentially proposes three explanations for what happened to neoliberalism and neoclassical theory between 2008 and 2013. The first explanation is based on the psychological theory of cognitive dissonance. When presented with unequivocal evidence that previously held beliefs are wrong, a true believer will emerge even more convinced of the truth of these beliefs and may show a strengthened fervor in convincing other people. In the case of neoclassical economists and neoliberals, the sub-prime financial crisis, or for that matter any crisis, cannot be due to any defect in their theories or their policy advice. This is what Mirowski calls denialism. Mirowski adds that no one should be surprised by such attitudes of denial among our neoclassical colleagues because no one should be naïve enough to think that Popperian falsification can carry the day and induce economists to cast aside long-cherished views.

The second explanation for why neoliberalism and neoclassical economic theory came out ever stronger despite the financial crisis is that 'the pre-emption of the breaking up of the financial sector in reaction to its insolvency in almost every country has been the single most important event that has bolstered both the transnational orthodox economist profession and the Neoliberal Thought Collective' (Mirowski 2013: 356). Mirowski argues that there are tight (monetary) links between neoclassical economists, the Federal Reserve and the financial sector, with these economists acting as the public relations arm of the financial sector, whereas they profess to talk in the name of science and the general public. As the governments provided virtual immunity to banksters, those supporting neoliberalism were provided with more confidence in the strength of neoliberalism and its economic theories, thus encouraging them to retain their capture of the economics profession.

The third explanation is based on what Mirowski calls agnotology. It is a kind of propaganda based on systematic attempts to create doubt and confusion, as a way to destroy any clear-cut alternative to a contentious issue. It has become nearly impossible to describe in neat terms what 'orthodox economists really think', as economic debates have become a cacophony. It is claimed that the economy is too complex for any financial crisis to be properly explained and that any rejection of the core doctrine of neoclassical or orthodox economics is not needed because revisions of the most doubtful elements of the doctrine have already been done by those working at the 'leading edge' of the profession. It is claimed that this or that orthodox mathematical model had already anticipated the financial crisis. As an example, Mirowski provides the Akerlof and Shiller model where banks end up going bankrupt, ultimately because bankers with a slightly tinkered utility function take advantage of government deposit insurance (another instance of regulation failure!). It is also claimed that all the concerns of heterodox economists have already been (or are soon to be) incorporated by the leaders of the orthodox profession, as internally driven reform is already under way by those who have a total mastery of the most sophisticated neoclassical models.

This is what Tom Palley (2013) has called ‘gattopardo economics’: the promotion of fake changes making real change more difficult. Despite his vicious attacks against his fresh-water colleagues, and as pointed out by Mirowski (2013: 296), Paul Krugman has played an important role in this defence of orthodox economics and the NTC by giving the illusion that neoclassical macroeconomics can be ‘fixed’ without rebuilding it from the ground up and that no fundamental rethink is needed. Krugman, by appearing as a reasonable alternative to the extreme views of Chicago economists and other fresh-water economists, has thus cut the ground for those advocating a full reconsideration of macroeconomics. The false debates between fresh-water and salt-water economists have in fact been very beneficial to the NTC, by restricting the apparent debate to a narrower territory. Krugman, despite propounding economic policies that are very close to those advocated by post-Keynesian economists, as I have myself argued in the past, turns out to be a stalwart of orthodoxy and neoliberalism, as is made obvious by a careful reading of his blogs devoted to a discussion of the works of heterodox economists such as Minsky, Godley, Palley, Keen or the neo-Chartalists, where he has used his position to dismiss the originality or the relevance of such authors whenever others were attempting to give them some visibility.

A clear instance of agnotology or gattopardo economics, according to Mirowski, is the expansion of new behavioural economics. Mirowski’s views on this development are very similar to those of John King (2013). For Mirowski, new behavioural economics is based on the assumption that mainstream methods and microeconomic assumptions are the right benchmark and that new behavioural economics is there as a complement and not as a substitute. Its impact on macroeconomics has been minute. Another example of agnotology involves DSGE models, to which Mirowski devotes several pages. While some neoclassical economists argued that the DSGE model carried most of the blame for the crisis and should be ditched, others claimed that any coherent macroeconomic argument could only be made within a micro-founded DSGE model; others still insisted that all kinds of additions could be introduced to provide more realistic features, although this requires several ad hoc components, thus making a more realistic DSGE model a contradiction in terms. For Mirowski, all these debates around the DSGE model mask one basic fact: the lack of legitimacy of neoclassical theory. Like all the other debates around revisions of the core doctrine, which is based on an imaginary world, they are a distraction.

Mirowski’s book, available at quite a low price, is certainly worth acquiring and reading. Here I have given just a glimpse of the very rich arguments that he puts forward.

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