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Hip Heterodoxy

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It's a Friday night in January, and I am searching for a free drink among 9,000 economists. Every year a sizable portion of the nation's economists descend on some lucky city for the Allied Social Science Associations Annual Meeting, the economics field's largest gathering, a kind of carnival of suits and supply curves. Most academic disciplines have a similar annual convention, but no other can boast the same influence on American politics and policy--after all, Presidents don't appoint a council of anthropological advisers. It doesn't take long for mainstream academic thinking to become the foundation for the government's macroeconomic policy. In 1968 Milton Friedman, then president of the American Economics Association (AEA), devoted his presidential address to arguing against Keynesian meddling in the economy and for a monetary policy focused on restraining inflation. A decade later, his prescriptions would be largely adopted. In 2005 onetime Reagan adviser Martin Feldstein called for Social Security privatization just as Republicans in Washington were mobilizing (unsuccessfully) toward the same end.

This year's conference attendees are packed into the mammoth glass-and-brick Chicago Hyatt. On the second evening, I come across two receptions facing off across a basement hallway. If you wanted to get a sense of the status hierarchies of the profession, this was a perfect tableau. On one side, a reception in honor of the impending rebroadcast of the late Milton Friedman's famed miniseries *Free to Choose*, a wildly successful bit of laissez-faire propaganda now set to reach a new generation of unsuspecting blue-state audiences. The room is packed and festive, with several Nobel laureates milling about, chicken satay skewers available for noshing and an open bar. (A man behind me in line complains of the free drinks that "Milton wouldn't approve! Because we're not getting the true price of the drinks.") Across the hall, a reception hosted by the Economic Policy Institute (EPI), a left-liberal Washington think tank that advocates policies--higher minimum wage, easier paths to unionization, social insurance--that are in almost every detail the opposite of everything that Friedman stood for. In that room, perhaps thirty people gather, picking at the cheese cubes and shelling out \$6 a drink at the cash bar. The EPI's Max Sawicky, an imposing presence with a long gray ponytail and growling voice, tells me the turnout is better than usual.

After grabbing a free drink in the Friedman reception, I strike up a conversation with economist Michael Perelman in the hallway. Balding, with long gray hair, he has the intense, unblinking mien of a self-published science fiction writer, or a former grad student of Timothy Leary's. Perelman, who is there for the EPI reception, works at the margins of the discipline; he is one of a few hundred self-described "heterodox" economists at the conference. His last book, *Railroading Economics*, was about the creation of the "free market mythology," and his next book is titled *The Confiscation of American Prosperity: From Right-Wing Extremism and Economic Ideology to*

the Next Great Depression. I ask him about how he relates to the so-called mainstream of his profession. "It's a mafia," he says quietly, his eyes roving over to the suits spilling out of the *Freedom to Choose* room.

Mafia is probably a tad hyperbolic, but there is undoubtedly something of a code of *omertà* within the discipline. Just ask Alan Blinder and David Card. Blinder, a renowned Princeton economist and former Clinton economic adviser, has long been a zealous advocate of trade liberalization. But this past March, the *Wall Street Journal* ran a front-page article on Blinder's concerns about the massive dislocations that the current trade regime and outsourcing trends might bring for American workers. He suddenly found himself under fire from fellow economists for stepping out of line. Card, a highly esteemed economist at the University of California, Berkeley, caught flak for his heresy not on trade but on the minimum wage. In 1994 he conducted a study to see whether an increase in the minimum wage in New Jersey had the negative effect on employment that basic neoclassical theory would predict. He found it didn't. In fact, his regression analysis showed that, controlling for other factors, New Jersey gained fast-food jobs after increasing its minimum wage, compared with Pennsylvania, which hadn't raised wages. The paper attracted a tremendous amount of attention and criticism, and Card himself largely abandoned working on the minimum wage. In a 2006 interview, he explained his decision to leave the topic behind this way: "I've subsequently stayed away from the minimum wage literature for a number of reasons. First, it cost me a lot of friends. People that I had known for many years, for instance, some of the ones I met at my first job at the University of Chicago, became very angry or disappointed. They thought that in publishing our work we were being traitors to the cause of economics as a whole."

As Card's and Blinder's experiences show, the "mafia" still flexes its muscles, but there are also signs that its hold on power is slipping. While the discipline remains dominated by a "neoclassical" consensus that is generally pro-market and suspicious of government intervention, an explosion of new research programs and methods have provided strong evidence that many of the pillars of that consensus rest on a foundation of sand. In fact, just before the reception, AEA president George Akerlof, a Nobel laureate as respected in the profession as they come, gave what was in many senses a radical address, attacking some of the discipline's most basic assumptions about what drives human economic behavior. (Three men standing near me in the Friedman reception had referred to it as "crap.")

For this reason, I had expected the mood at the EPI reception to be upbeat. But the crowd was desultory. Things in the field were opening up, Sawicky conceded, "but it doesn't matter much, if it's still dominated by a bunch of reactionaries." In other words, while the ideas of Sawicky and his heterodox colleagues may have moved into the mainstream, they themselves have not.

So extreme is the marginalization of heterodox economists, most people don't even know they exist. Despite the fact that as many as one in five professional economists belongs to a professional association that might be described as heterodox, the phrase "heterodox economics" has appeared exactly once in the *New York Times* since 1981. During that same period "intelligent design," a theory endorsed by not a single published, peer-reviewed piece of scholarship, has appeared 367 times.

It doesn't take much to call forth an impressive amount of bile from heterodox economists toward their mainstream brethren. John Tiemstra, president of the Association for Social Economics and

a professor at Calvin College, summed up his feelings this way: "I go to the cocktail parties for my old schools, MIT and Oberlin, and people are all excited about *Freakonomics*. I kind of wince and go off to another corner or have another drink." After the EPI gathering, Peter Dorman, an economist at Evergreen State College with a gentle, bearded air, related an e-mail exchange he once had with Hal Varian, a well-respected Berkeley economist who's moderately liberal but firmly committed to the neoclassical approach. Varian wrote to Dorman that there was no point in presenting "both sides" of the debate about trade, because one side--the view that benefits from unfettered trade are absolute--was like astronomy, while any other view was like astrology. "So I told him I didn't buy the traditional trade theory," Dorman said. "'Was I an astrologer?'" And he said yes!"

The Birth of Orthodoxy

The term "heterodox"--like, say, "infidel"--is necessarily imprecise; it categorizes people by what they don't believe rather than what they do. In the case of heterodox economists, what they don't believe is the neoclassical model that anchors the economics profession. Classical economics refers to the theories laid out by Adam Smith and David Ricardo in the eighteenth and nineteenth centuries, which emphasized the power of the "invisible hand" of the market to promote the division of labor and economic growth. Smith famously summed up the recipe for prosperity as "peace, easy taxes, and a tolerable administration of justice," with "all the rest being brought about by the natural course of things."

A hundred years after Smith, a group of "neoclassical" economists came along and added a few key features to his account, which continue to ground the field to this day--that humans are rational, utility-maximizing agents with fixed preferences, that they make decisions "at the margins" and that the mechanisms of supply and demand (operating free of government interference) will lead to a general equilibrium whereby resources are allocated efficiently.

That view dominated for the next sixty years until John Maynard Keynes came along in a period of global economic crisis and proposed a new way of looking at the economy, one focused on national economies as systems that were decidedly imperfect and prone to failure. In the wake of Keynes's work in the 1930s and '40s, economists had a problem on their hands. They had two models for how an economy worked: the neoclassical account of supply, demand and prices (microeconomics) and Keynes's account of the relationships among consumer demand, employment and money (macroeconomics). In the 1940s and '50s, a series of legendary economists formally fused the two, producing the "neoclassical synthesis." Many of the pioneers of this work, from Paul Samuelson to Kenneth Arrow, were famously liberal. But their work stressed the ways in which markets, functioning on their own without interference, tended to an interdependence described as "general equilibrium." In their wake came a parade of libertarian economists, like Milton Friedman and his Chicago School colleagues, who pushed the neoclassical model to leave Keynes behind completely, to fully embrace the logical extremes of a world of self-interested rational actors--a back-to-the-future gambit dubbed the "new classical" economics.

In terms of the implications for the relative value of market and nonmarket forces in allocating resources, the new classical view didn't differ substantially from Adam Smith's original contention. In the same way classical economics was born as a brief for laissez-faire capitalism, against the

prevailing interventionist mercantilism of the day, the new classical model reaffirmed the value of markets in the wake of Keynes's critiques.

And it came to dovetail quite neatly with a worldview that has dominated the past thirty years of globalization, which Notre Dame heterodox economist David Ruccio succinctly summed up to me as one in which "markets, private property and minimal government will achieve maximum welfare."

But the neoclassical model didn't leave its mark only on economics. In an audacious burst of methodological imperialism, Chicago Schoolers like Gary Becker used the framework of rational individuals seeking to maximize their utility to analyze and explain everything from tax evasion to teen pregnancy. This laid the groundwork for the public discourse we have today, in which *Freakonomics* spends 101 weeks on the bestseller list and policy-makers obsessively invoke "incentives" as the panacea for any given social problem. ("Incentive pay" for teachers! Give poor kids sneakers, and they'll be A students!) Indeed, the cradle for much of our policy discussions can be found in the first chapter of just about any introductory economics textbook, where the basic precepts of the neoclassical framework are described under the rubric of "thinking like an economist."

The problem, then, that heterodox economists face is that they are economists who don't "think like economists." Many point out that humans aren't rational, or not nearly as rational as the theory would have them be (and, further, that in the aggregate this creates market failures). Others point out that humans are social creatures, not individual agents, and their preferences and behaviors are forged by social structures: institutions, habits, social mores and culture all mediate and drive economic behavior. Others say that price and value aren't interchangeable and that prices don't arise from the simple intersection of supply and demand curves, while some argue that unequal power between different sectors of society affects how markets operate. Dissent from the mainstream of economics is not new; indeed, it's nearly as old as the profession itself. Marx was a kind of heterodox economist, as was Thorstein Veblen. John Kenneth Galbraith spent his whole life as an economic dissident, and the political ferment of the 1960s ushered in a relatively large class of radical economists who together founded the Union for Radical Political Economics, which exists to this day.

In 2000 the economics graduate students at the École Normale Supérieure staged a mutiny, signing a manifesto that objected to the "autistic" economics they were being taught. "Too often," the students wrote, "the lectures leave no place for reflection. Out of all the approaches to economic questions that exist, generally only one is presented to us. This approach is supposed to explain everything by means of a purely axiomatic process, as if this were THE economic truth. We do not accept this dogmatism."

The rebellion spread across Europe and gave rise to a fairly vibrant Post-Autistic Economics movement in places like England and Germany. But in the United States, the Post-Autistic movement never caught fire, and dissident economists remain clustered in a handful of locations: the University of Utah; UMass, Amherst; the University of Missouri, Kansas City; The New School; Notre Dame; and in a few professional associations and journals. "We're between 5 and 10 percent in the academy," Frederic Lee, who edits the *Heterodox Economics Newsletter*, tells me. "That might be generous. It's not very much, but it would be like saying Jews only constitute 5 percent of

Europe. Yeah, sure, after you slaughter 'em. The issue isn't that you're small--the issue is that you're there at all."

The chief complaint of heterodox economists is that the social hierarchy of the profession prevents their ideas from getting the hearing they deserve. Thomas Palley, a dissident economist who received his PhD from Yale and once worked for the AFL-CIO, says that many heterodox ideas "can't be rejected on scientific grounds. They meet all the tests of the profession--they don't meet tastes of the profession. So then you have to answer where the tastes come from."

As a parable of how the boundaries of "taste" and acceptability are enforced, the tale of Notre Dame's economics department is instructive. For the past few decades Notre Dame has had one of the few economics departments where grad students interested in non-mainstream topics could study and find advisers for their dissertations. But the faculty's heterodox focus froze it out of the top-ranked journals, which generally don't accept non-neoclassical work, and resulted in a low ranking. In the early part of the decade, as Notre Dame pushed to raise its national stature, the department's poor ranking came under increased scrutiny, and in 2002 a blue-ribbon committee was commissioned to make recommendations aimed at raising its reputation.

"They wanted a more highly ranked economics department as part of a more highly ranked university, and as long as we were eclectic we wouldn't do that," David Ruccio told me recently. Ruccio is one of the department's stars, a wildly popular professor who has been teaching intro economics to undergrads for twenty years. He specializes in postmodern economics and Latin American political economy. With his curly white hair and goatee, working-class inflection and ubiquitous Marlboros, he's the very model of the cool, rebellious professor. When I asked him if his wife was an economist, he was horrified: "Oh, God no!" he said. "She's an anthropologist."

Ruccio emerged as de facto spokesperson for his heterodox brethren at Notre Dame. The administration "made a number of threats to close down the program unless we published in the top five journals," he says. "We resisted that. They brought in an outside chair to punish us and then they...decided to create a new 'real department of economics' and make us the department of 'flaky economics.'" One department, which would focus on neoclassical economics, would get the name Department of Economics and Econometrics, as well as the money to hire several new tenure-track professors and the bulk of grad students, and the other, called the Department of Economics and Policy Studies, would be the home of the heterodox economists (who, it should be noted, constituted the majority of the department). Crucially, though, the heterodox department would be frozen out of the graduate student admissions process: Of the five-person graduate committee, four of the seats went to the neoclassical department.

"We opposed the split," Ruccio says with wearied agitation, "the college council opposed the split. Then through a series of machinations, the chair and the president of the university got the academic council to support it. It was very ugly. We know of no other situation in the world where this exists."

And how did they justify the split? "The official line was, These were--let me see if I get this right--'separate but equal.'"

Richard Jensen, the neoclassical chair of the department, defended the split as solely an issue of "standards." But it's precisely the validity of those standards that's at issue. "They don't see themselves as cleansing alternative approaches," says Frederic Lee. "They simply see themselves as saying, This is good economics, and that's bad economics."

Of course, all disciplines set up boundaries, basic methodologies and ways of knowing and deny membership and recognition to those practitioners who work outside those boundaries. Doctors will say faith healers--or midwives, or acupuncturists--aren't engaging in medicine, and biologists routinely point out that intelligent design theorists aren't engaging in science. But at the same time some mainstream economists dismiss heterodox work as quackery, others claim that the mainstream has actually assimilated many of the heterodox critiques. (You'll note that these two responses, both fairly common, are also logically incompatible.) Economist and author Diane Coyle devotes much of her new book, *The Soulful Science*, to defending the field against charges of autism. "My years as a graduate student, 1981-85, saw the high water mark of neoclassical economics of the kind which is still the target of critics," she writes. "One of the reasons the tide turned is that the kind of models which became popular (especially among impressionable graduate students) in the late 1970s and the early '80s acted as a kind of *reductio ad absurdum*. The attempt to explain business-cycle fluctuations in growth and inflation as the equilibrium outcome of a model with identical, perfectly informed rational agents was, on just a little reflection, pretty silly."

In his keynote talk to the Association of Social Economists, environmental economist John Gowdy referred to this as the "Clint Eastwood defense: 'We ain't like that no more.'" But he then added that in some respects it was true. The mainstream, he said, has "gone beyond the free-market ideology. There's a wide variety of empirical work being published." The empirical work that Gowdy and other heterodox economists tend to cite most is that of behavioral economists, those who study how humans actually reason about economic decisions, calculate risk and respond to incentives. What they routinely find is that the rational utility maximizer of the neoclassical model is a convenient fiction. A growing literature shows humans to be systematically biased in their calculations of risk, disposed to punish antisocial behavior, even at a cost to themselves. By creating a framework for empirically testing one of the founding axioms of the field, behavioral economics has opened a space for dissenters that can get a hearing from the mainstream. If you were to draw an intellectual Venn diagram of mainstream and heterodox economics, the behavioral economists would be in the intersecting section.

But despite the fact that much of their work is devoted to upending *Homo economicus*, the behavioralists have achieved widespread mainstream acceptance. Daniel Kahneman, who helped establish the field along with his late colleague Amos Tversky, won the Nobel Prize for his work in 2002. So then one has to ask, Just what set of characteristics defines what gets to be called "mainstream economics"? And the answer can seem maddeningly circular: Mainstream economics isn't defined so much by some limited set of ideas or approaches. Mainstream economics is that work done by mainstream economists and published in mainstream journals.

The More Things Change...

Back at the AEA, the strange, vexed relationship between the margins and mainstream was everywhere apparent: Heterodox ideas weren't hard to find, but heterodox economists were still consigned to their ghettos. At 10:15 on the second day, I headed down to a dreary and near-hidden room in the sub-basement of the Hyatt for "Plural Agency and Plural Subjects within Economics." There were not many people there. In fact, the only people who'd shown up were the presenters themselves. After waiting a few minutes to "give people a chance to find the room" the event started, and since it would have been a bit awkward for the panelists to sit and face an empty room, they opted instead to sit in the audience and listen while their co-panelist presented. John Davis, a professor of economics at Marquette, gave a talk that laid out a conception of human economic agents not as simple unified selves but as "diverse and heterogeneous."

After Davis's talk I went upstairs to catch a talk from a friend of mine, a bright young mainstream economist named Jesse Shapiro. The room was far easier to find and significantly more populated. Shapiro's co-author was presenting an experiment they'd just done to investigate how people evaluated the trade-offs between getting a certain amount of money immediately and waiting a short time (a week) for more money. In attempting to understand the different preferences, they used a model of agents with two distinct selves: a long-run self and short-run self, and posited that those with more developed "long-run selves" were the ones who'd wait the week for the extra money.

Here were economists with impeccable mainstream credentials, up-and-comers in the field offering an account of human agents with "multiple selves." And while the methodology was quite different from Davis's, the fundamental concept at the heart of both papers was the same: The human economic agent is not the unified entity neoclassical theory has held her to be. Downstairs, there had been no one around to hear Davis deliver his small bit of heresy; two floors above, it seemed to cause no stir at all. Shapiro didn't find this surprising. "The field is getting much more empirical," he tells me matter-of-factly.

A month after the conference, I went to talk more with David Ruccio in his Hyde Park apartment. He'd just returned from Brazil, glowing about a country where you could smoke indoors: "There is no repression here!" one of his hosts had told him when he asked if he could light up. Ruccio laughed and lit a cigarette, sitting next to a fireplace. I laid out for him my impressions of the AEA conference: If the mainstream itself is opening up, molting the restrictive *Homo economicus* and general equilibrium casing, then is the field changing? And does that mean that the worldview of neoliberalism, and market fetishistic policy prescriptions, are losing the important intellectual bedrock in which they are grounded?

Ruccio wasn't quite buying it. "There's a fracturing taking place," he conceded. "It's very hard to put your thumb on what neoclassical economics is. And yeah, there are new research agendas, but what gets taught at every institution in the country from undergraduate to graduate is the same utility-maximizing story. The teaching remains the same, and the policies remain the same."

He continued, "Some of the critiques, as has always been the case, are integrated in some fashion. They take in the critique in order to change the model but not upset the model." Behavioral economists, for example, don't generally argue for abandoning the general equilibrium model, instead choosing to see their work as adding "frictions" to it. "It's what drives people like me crazy," Ruccio went on. "Because the more disturbing questions are ignored--unequal power or

exploitation, those critiques never come in. They say, Look, we've changed. And we look and say, No, you haven't."

'Shoots of Spring'

No one would call Berkeley's George Akerlof a heterodox economist, but his ideas have always been iconoclastic. Back in the 1960s, he noticed that there was something systematically wrong with the market for used cars. His insight was that the problem was "asymmetric information"; the dealer knew if the car was a lemon, and you didn't. Initially no journal would accept his paper "The Market for Lemons," but eventually it was published to much acclaim, and asymmetric information was recognized as a serious breakthrough. He shared the 2001 Nobel Prize for his work on the topic.

Akerlof's AEA address was titled "The Missing Motivation in Macroeconomics," and its purpose was to argue that the basic theory of human behavior upon which neoclassical economics rests is incomplete and that the incompleteness leads to a host of theoretical errors. The "missing motivation" of the title were social norms, people's conceptions of how they should act, which Akerlof argued played a central role in people's economic activity. Once these social norms are integrated into economic theory, Akerlof argued, many of the anti-Keynesian arguments made by Friedman and his ilk begin to fall apart. "The Keynesians based their models on their observation of motivations," Akerlof notes, "rather than on abstract derivations. If there is a difference between real behavior and behavior derived from abstract preferences, New Classical economics has no way to pick up those differences. In contrast, models with norms based on observation will systematically incorporate such behavior." Writing in the *New York Times*, Louis Uchitelle said the talk could "push prevailing economic theory further away from the free market approach that has generally held sway for the last four decades."

If the heterodox economists were nonplussed or only grudgingly positive about the speech, many mainstream economists weren't psyched about it either. NYU's Mark Gertler told Uchitelle that Akerlof was "stepping out of line," and one Chicago School economist I e-mailed said he "hated it" and added that it had made one of his colleagues "depressed."

The word "depressed" caught my eye. You only get depressed by something you disagree with if you think others are going to find it persuasive--that is, if you think that the pendulum isn't swinging your way.

"There's a recognition that it's pretty hard to believe in the rational expectations and equilibria which were sold to students in the 1980s, when you had to read them, and not only read them but send them up as your benchmark," Thomas Palley, the former AFL-CIO economist, told me. "In 1983 there were more voices and more possibility, but the world was closing. Now we're coming from a black hole and there are shoots of spring."

About Christopher Hayes

Christopher Hayes is *The Nation's* Washington, DC Editor. His essays, articles and reviews have appeared in *The New York Times Magazine*, *The Nation*, *The American Prospect*, *The New Republic*, *The Washington Monthly*, *The*

Guardian and *The Chicago Reader*. From 2005 to 2006, Hayes was a Schumann Center Writing Fellow at *In These Times*. He is currently a fellow at **the New America Foundation**. His wife works in the White House Counsel's office. **more...**

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