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R. Skidelsky, What's wrong with economics? A primer for the perplexed

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Among the many books that advocate pluralism in economics, this one stands out because of its author. Robert Skidelsky has written a prize-winning biography of John Maynard Keynes in three volumes (Skidelsky 1983, 1992, 2000). What conclusions for economics as a discipline is the man going to draw who has identified with the main reformer of economics in the twentieth century? The answer is: he does not advocate, nor even strive for an alternative theory to mainstream economics, but he advocates a pluralism, of which he admits that it is by no means new. For historicist and interdisciplinary approaches have been advocated by many ever since economics emerged as an autonomous discipline; one can mention the historical school, socio-economics, Marx, and current authors. Skidelsky informs the reader about his own background in history. He does not believe much in cumulative progress in economics, but he does not write many pages on forgotten authors that might deserve to be resuscitated either. Instead, he mostly quotes contemporaries, never forgetting to mention the Nobel Prize if the author under investigation had got it. He wishes to present what is important through the mutual profession and criticism primarily of the modern authorities in a process of deconstruction and reconstruction.

There are 14 chapters, running from "Methodology" to "The Future of Economics". Pluralism is necessary not so much because an observer can view an object from different angles, but because there is uncertainty. Individuals are not only rational actors; hence they are unpredictable. There is complexity, power interferes with the logic of competition and the acts of choice are not independent. It is better to focus on wealth than on how scarce means are used to achieve given ends, for what is regarded as scarce depends on economic influences and a social dynamic, and it depends on ethics according to historically changing standards. The emergence of the competitive capitalist system leads to economic growth, and

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Western economics focuses on this phenomenon by means of deductive and inductive theorising. Why did Adam Smith not see the process as the result of the organization of princes, Skidelsky asks? The liberal founders of classical economics thought that the princes were incapable of doing it, he answers. I may add that traditional Chinese economic thought was different; it characteristically ascribes the achievement of prosperity to good emperors. Skidelsky points out that government had a decisive role in development, however. There is the historical example of Japan, there was List's idea that infant industry needed protection, and from there the discussion moves to the debates about development, the *dependencia* theories, the theory of unequal exchange, the contrast of periphery and core countries, the limited success of import substitution and to the Washington Consensus as a reaction to development policies that foundered on incapable state bureaucracies. But privatisation is not a panacea and development will not result without a functioning apparatus of the state and entrepreneurship.

Skidelsky takes the critique of neoclassical theory up after these rapid lessons on successful and unsuccessful growth with its problematic of creative destruction. He does not try to question neoclassical theory by attacking a central weakness, but he musters a multiplicity of arguments and tends perhaps here to get lost, although he chooses one concept, equilibrium, as his focus. The subsequent chapter is on "Models" and "Laws". Shall theory be inductive, deductive or are theories in the end only rhetorical means of persuasion? Should the assumptions be realist or suitable for effective prediction or self-evident? How does one decide? There is Popper's criterion of falsification and a summary of Kuhn and Lakatos on how intellectual revolutions break their way and new paradigms get established. A special bashing is reserved for econometrics. Is complexity often not such that the art of calibrating the model is what really generates the results? Narratives give meaning in complex situations; whether the narratives are believed depends on whether the narrator is trusted, nonetheless, the narratives elucidate something. And so, we arrive at McCloskey, who approves of the mainstream because it is rhetorically effective. Tendencies can be predicted, but the validity of underlying regularities changes with historical conditions. Verdoorn's law for instance loses its significance as the share of industry in production diminishes. What remains of the theories is tied to circumstances that change with historical transformations, hence historical schools get a vindication.

The discussion then turns to the neighbouring disciplines. Psychology studies, why market participants behave in the way they do. The concept of *homo oeconomicus* is again criticised. Uncertainty should not be replaced by probability; crimes cannot be reduced to rational actions. Behavioural economics is no complete alternative. A number of concepts developed by behavioural economics, such as confirmation bias or the sunk cost fallacy, seem nonetheless attractive to Skidelsky. My preferred chapter is the next on sociology and economics. The subject in sociology is not necessarily the individual, but the system, within which the individual reacts to norms. Skidelsky opposes sociological holism to methodological individualism, quoting Marx. Historical sociology followed on Marx, here starting with Tönnies's *Gemeinschaft and Gesellschaft*, then follow a summary of central ideas of Max Weber and the opposition between communicative and strategic rationality proposed by Habermas. Is self-interest, as developed in modern societies, enough to establish relations of obligation? The history of modernisation is delineated in yet another way according to Polanyi. One easily gets from here to the old institutionalism, discussed in the subsequent chapter, but Skidelsky feels less attracted by the new institutionalism, which began with the introduction of transaction costs to explain historical change. The role of power in economics is a subject, which economists have tended to neglect, perhaps because of its association with Marxism. Skidelsky distinguishes between the liberal attitude, where power exists, but can be controlled by means of a separation of powers, the Marxist doctrine, which discusses power in relation to class struggle, ideology and false consciousness (Gramsci), and a "Machiavellian" approach: according to Pareto, ruling elites follow each other in succession. Economists conceptualise the market as a realm that is free of power relationships, except for the distortions caused by all forms of imperfect competition. Skidelsky enumerates them and then asks where power resides in economics as an academic discipline. There is a relative autonomy, but nonetheless a strong ideological influence.

Two chapters are concerned with history of economic thought and economic history respectively. Skidelsky explains here in greater detail why the economist may benefit from studying the history of the subject; the writings of the dissenters contain an arsenal of tools. However, there is not much room in this book for striking examples. It is logical that, after the critique of econometrics, cliometrics is not well received. An exception is "Time on the Cross" (Fogel and Engerman 1974), because their book showed that slavery was not economically inefficient; hence the slave holders had to be defeated for moral reasons, not because they were economically impotent. Skidelsky is otherwise more on the side of the primitivists than the modernists and praises Finley.

One conclusion is that economics must again become a moral science. The chapter stresses Amartya Sen and his theory of capabilities. Economists should become more modest (the chapter is entitled "retreat from omniscience"). This is illustrated by means of the Keynesian theory of probability. There are statements to which we can attach a numerical value of probability, other statements which are capable of an ordinal ranking only as to their plausibility, and finally many, which defy quantifiability all together. But "the project of improving how to do economics cannot rely on a return to Keynes" (p. 185). We need an "improved ontology", taking into account the role of ideas, of power, of technology. Not only individuals, but also governments and corporations—the groups in-between the individuals and the state—have to be taken into account. One may add that this postulate was a matter of course for the historical school, contemporaneous with the first neoclassicals. Unsurprisingly, the proposals for "The Future of Economics" (the title of the last chapter) are not very concrete and concern more the attitude to be taken than specific institutional setups.

Taken all in all, this is an admirable survey. The specialist may miss details of what he or she is most interested in, but Skidelsky manages surprisingly well to get to the essential core of each of the many doctrines in this rather densely packed *tour d'horizon*. Despite efforts to the contrary, the book is still somewhat Anglocentric. I, for one, missed any discussion of ordoliberalism (Walter Eucken is not mentioned), and I find it curious that one should come so close to the method of the historical school without really taking up any of its authors. If more elements of theory should remain than were used by members of the historical school (except for Marx who, in a sense, belonged to it and yet had a theory), such theory must be worked out as precisely as is adequate for the object under consideration. Debates on the theory of value and price will therefore continue, even if our macroeconomic forecasts will never be accurate. But this is only one of many questions for discussion, which this book may help to raise, and it is therefore indeed to be recommended to the "students and teachers of economics", to whom it is dedicated.

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