

IL MITO DEL MERCATO GLOBALE.  
REPLY TO IAN STEEDMAN

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To begin with, I must thank Ian Steedman for reviewing my book (Palermo 2004) in this Journal, thus extending its readership to an international public despite the fact that the book is in Italian. I am also fortunate that the review is very critical, as this gives me an opportunity to assess the validity of my argument through the severe critique of an influential personality in the economic field.

Steedman (2004) opens his critique by noticing a number of apparent contradictions: is the book about economics or about politics? Is it intended for laymen or professional economists? Is it a purely vulgarizing work or a contribution to scientific research? Following, he explains why the book is disappointing from a strictly scientific viewpoint. He argues that the theories featured in the book are rather unoriginal, that there are grave omissions, and that the book is boring and annoying (these latter features being, one might argue, characteristic of most 'good' books of economics). Finally, Steedman criticises my political proposal for being vague and insufficiently articulated. This as far as substance is concerned. Form, he asserts, is uselessly colourful and essentially redundant.

1. FOR WHOM THE BOOK IS INTENDED

The book analyses the rising of neoliberal thought in economic theory and in political debate. The main argument is that economic theory provides an apparent scientific support to the myth of the 'free market' and contributes to establish neoliberalism as dominant culture. The problem is that, upon more careful scrutiny, this support proves itself to be inadequate. The gradual disappearance of a critical attitude in scientific research paves the way, on a political level, for the rising of a *pensée unique* that claims to be a-political and scientifically neutral. This is a serious impediment to the discussion of any other possible world. My criticism is directed mainly at the neo-liberal left wing, which a-critically accepts the myth of the market and thus renounces any radical claim against neo-liberal policies and capitalis-

tic rationale. This critique of neoliberal theories concerns not only their internal consistency and the plausibility of their assumptions, but their ideological and moral premises as well. The general goal is to demystify economic theory and its obstinate tendency to present as rational a world that is simply immoral, and as politically neutral policies that, in fact, serve party-interests.

The book is intended for the layman, to whom it tries to provide the tools for a critical understanding of economic theory. At the same time, however, it also challenges professional economists by inviting them to put their methodological (and ideological) prejudices aside, in an attempt to evaluate the theoretical solidity of neoliberal prescriptions, always presented in the political domain as the only possible and necessary solutions. Therefore, professional economists should not expect particularly original theoretical findings. The challenge is instead in renouncing the impossible objective of scientific neutrality, understood as independence from moral and political questions (which, notwithstanding the criticisms of Gunnar Myrdal and Maurice Dobb, remains the illusion of every good neoclassical economist), and in explicitly discussing the complex relationships between economics, ideology, ethics and politics.

Steedman's criticism of this attempt at critical vulgarisation is particularly interesting. Indeed, my critic has succeeded in the ambitious attempt to read the book both as layman and as economist. His conclusion is that «the «lettore commune» will find it really hard going, while the well-trained economic theorist may well find that it swings between being boring and being annoying» (Steedman 2004, 123). Fortunately for me, Steedman's judgment is not unanimously shared: the book has been positively reviewed in two Italian newspapers, *il manifesto* and *Liberazione*, and has been favourably received by independent radios, social centres, trade union exponents and by the radical components of the student movement. My impression is that the book has been well received mainly by non-professionals whereas those who have found it frustrating are mainly academic economists. If this is indeed the case, then doubtless it is the economist side of Steedman that must have prevailed.

But let us first take a look at why such a dangerous operation of critical vulgarisation was merited.

## 2. MOTIVATIONS AND OBJECTIVES

Modern economic theory imposes a number of technical and mathematical barriers that restrict economic discourse to an expert public, impeding widespread participation in economic and political debates.

The paradox is that, notwithstanding these obstacles, there is an increasing inclination on the part of political forces and movements towards economic and social issues. In other words, while mass social and political movements turn to economic reality, they are at the same time deprived of the tools to understand economic theory. This complex process is not only about common citizens losing touch with scientific theory. It is more importantly about the way in which economists lose touch with the needs of common persons, by ignoring the demands of social and political movements, which do not necessarily obey the axioms (or the dogmas) of economic theory.

The problem is that orthodox economics has become impermeable to any radical criticism that does not accept its scientific code. By becoming hegemonic both at a scientific level and within general culture, neoliberalism is no longer considered as what it truly is: the theoretical fruit of particular schools of thought with their own particular ideological and methodological premises. Today, neoliberal economic theory is *the* economic theory and its prescriptions appear as the logical deduction of purely objective and indisputable scientific facts. In reality, however, this is but an appearance. In this book, I simply remind the reader of this fact, and from this, I construct a political argument.

In this sense, I believe that Toni Negri, the author of the preface, is right to claim that it is an essentially political work (developed through a critique of economic theory). In fact, my constant goal throughout, far from limiting my criticism to the moral condemnation of the effects of neo-liberal policies (which in itself is not productive), has been to develop a political argument as well. Clearly, my political positions may be judged in a number of ways. Yet, from a strictly scientific point of view, I find it comforting that a critic, who can hardly be accused of avarice in his review, has chosen to insist on scant originality, not on lack of scientific rigour. I surely repeat already known things, but it is precisely on them that I build my political reasoning. Therefore, Steedman's remark that these results can be taken for granted on a scientific basis does not weaken my argument, but reinforces it.

### 3. THINGS THAT EVERYBODY KNOWS...

The point, then, is not that the book repeats things that economists already know, but that non-economists generally do *not* know these things. This has important political implications. Steedman observes:

Few economists will need to read Palermo to learn that Paretian efficiency is consistent with extreme inequality. [...] It is far from self-evident that GE theory and Paretian welfare economics will, of themselves, persuade anyone (who really understands them) of any wide-ranging political and economic policy standpoint. [...] Economists will learn little from the discussions of increasing returns, externalities and public goods.

(Steedman 2004, 124)

In short, nothing new – for economists.<sup>1</sup> And yet, in the name of efficiency, structural reforms, changes in the rules of the game, deregulation, privatizations and flexibility (of workers) are all prescribed. But no economist mentions that, precisely because efficiency and inequalities are perfectly compatible, one might also contemplate Pareto inefficient interventions in order to fight hunger and poverty. Economists do not surely need Palermo, but common readers perhaps need economists. Instead, they remain silent.

The theory of market failures (in more or less sophisticated versions) is often invoked by anti-trust and other regulating agencies, and is used to fix the relations between the state and the market. However, economists and public opinion do not at all have the same notion of market failures. For common mortals, the market fails when it produces situations in which the most elementary needs are not satisfied; not when it fails to reach Pareto efficiency, a concept unknown to most. People believe that economic policy serves to solve the concrete problems of the world. Economists however think that it serves to solve their own theoretical problems: the attainment of Pareto efficiency. Moral philosophers have repeatedly pointed out the weakness of this normative criterion. But this has little relevance. In the political arena, the most authoritative voice remains that of the economist.

The question of market failures is also related to the significance of the general equilibrium model. Steedman assumes that theoretical results reached in this field can be taken for granted. However, if we consider, for instance, the impossibility to demonstrate unicity and stability of equilibrium (Sonnenschein 1973) (which according to Steedman (2004, 123) should not be explained to common readers because it is too hard going), the question arises: why do economists continue to teach a model that is useless from both positive and normative viewpoints? And why should one pay such attention to welfare theorems, given that they involve equilibrium conditions that perhaps will never be attained? But, above all, how can one uphold

1. Although Steedman's phrase «who really understands them» in fact suggests that not all economists necessarily understand the implications of their theories.

that the political debate should start from a premise, that of market efficiency, which is invalid both in reality and in the model?

It is not up to me to judge whether the general equilibrium model is mainly taught from a critical perspective, by pointing out its intrinsic limits (as great neoclassical economists such as Frank Hahn and Lionel McKenzie do). However, it is easy to see that modern economics textbooks devote more pages to technicalities than to criticism. There is an increasing demand among students for critical analysis and for a greater awareness regarding the choice of the theories to study (the 'post-autistic movement' being a notable example). On the other side of the barricade, we assist instead in the death of critique both in teaching and in scientific research. Students are asked to solve useless and ridiculous mathematical exercises and to know fix-point theorems and efficiency conditions. For theoretical and methodological criticism and issues of moral philosophy there is simply no time. Needless to say, time will lack even more when our students become researchers and professors.

#### 4. ...BUT THAT STILL SURPRISE

Until now we have accepted Steedman's assumption that economists do in fact know economic theory. But is this really true? Steedman writes ironically:

[Economists] will be surprised to learn that for the «*economista borghese*» the importance of an individual in society is given by his ability to spend and that the «*teoria economica borghese*» gives no importance to the distribution of income. They may also find it odd that Palermo discusses the two theorems of welfare economics but not compensation criteria or cost-benefit analysis (both open to criticism, of course).

(Steedman 2004, 124)

In the market, we all know, collective decisions are a consequence of individual choices. If the basket of goods *X*, rather than *Y*, is produced, it is because, through individual demands, society expresses its preference for *X* over *Y*. How does this process of aggregation of individual preferences occur? Simple: by giving each individual a number of voting rights that is proportional to her purchasing power. In the market, the implicit voting system is well known (or at least I thought) and is based on the principle 'one dollar-one vote'. Therefore, and this might come as a surprise for Steedman, in the market individuals are not all equal, but count precisely in proportion to their ability to spend.

However, from a theoretical perspective, the real problem is not that the market mechanism is antidemocratic. This is a fact, which

does not depend on theory but on reality. The problem is that economic theory takes this antidemocratic principle as the foundation of its normative framework, that is to say it applies it to the study of *what ought to be* and not only to the study of *what is*. Welfare economics, of course, considers different distributive configurations (implying different distributions of voting rights). But, in defining social desirability, it does not admit that individual preferences might be aggregated according to other criteria than the 'one dollar-one vote', which, accidental cases apart, is non-democratic. With this implicit normative criterion, economic theory makes its policy prescriptions, the fruit of complex mathematical elaborations that only the economist can understand, and consigns them to politics (perhaps it is also for this reason that economists get so nervous when the same old rebels, who are not even able to make derivatives, pretend to question the rationality of their prescriptions). A judgement of fact (it is a fact that the market works according to the principle 'one dollar-one vote') is transformed into a judgement of value (only that which respects this principle is desirable), a process which, as David Hume reminded some century ago, is methodologically unsound.

The contradiction between the supposed neutrality of normative economics and its all but neutral moral premises is particularly evident in the theory of social choice. Social choice theory imposes a number of minimal moral conditions on criteria that define social desirability (in particular, it assumes the 'one head-one vote' principle), conditions that instead welfare economics ignores (and violates). As is well known, then, these minimal moral premises turn out to be incompatible with Pareto efficiency (Arrow's impossibility theorem). Yet the economist is not surprised by this, nor does he care. Only Pareto efficiency matters to him. The rest is politics, not science.

It is irrelevant if, in the market, Pareto efficiency is obtained by renouncing the moral principle that wants all individuals to have the same weight in society. The thesis is important, not the assumptions. And the thesis stipulates that perfectly competitive markets are Pareto efficient (even though, by assumption, they are non-democratic). With this, I clearly do not wish to charge the economist with the responsibility of upholding a system that pays in democracy the price of efficiency. This is just capitalism (and the fact that capitalism is in fact efficient is an entirely different question). The economist's responsibility lies instead in his construction of a normative framework that pretends to be neutral and impartial, yet that presupposes a voting system that does not respect the most elementary principles of democracy.

Furthermore, the problem is aggravated by the fact that Pareto criterion is also generally applied out of the context of the two welfare theorems (as it could otherwise *never* be applied, given that welfare theorems rest on quite unrealistic assumptions). This means that distribution is viewed as a given not in a merely abstract sense (as a methodological choice that allows for comparisons between different distributive configurations), but also in a very concrete sense, since *existing* distribution is taken as given (remember that neoclassical theory admits redistribution only within the context of the two welfare theorems). I do not know whether economists are truly surprised by this. What is surely unsurprising is that *status quo* defenders invoke the neutrality of this criterion.

At this point, however, compensation criteria come to the economist's aid. These criteria, which I have not discussed in the book, allow the economist to provide normative prescriptions even when the Pareto criterion *tout court* does not. It is all but clear, according to the literature, whether this kind of stratagem in fact solves the problem or rather creates new ones that are even more serious (as suggested by theoretical paradoxes that can occur when one follows this theoretical path). But I do not see how these attempts to enlarge the applicability of welfare economics can solve the contradiction between Pareto efficiency and democracy, considering that, just as the Pareto principle *tout court*, they are based on the 'one dollar-one vote' principle.

##### 5. OMISSIONS AND SELECTION CRITERIA

Steedman's criticism of this omission offers me the possibility to explain the criteria I used to select the theories discussed in the book (actually Steedman points out other omissions too, such as growth models, intertemporal choice models, resource-extraction theory).

Firstly, I privilege the theories that defend the general rationality of the market: the general equilibrium model as far as the neoclassical school is concerned; the Hayekian conception of competition as far as the Austrian School is concerned. Starting from these 'classical' references, I then analyse the theoretical developments that provide straightforward criteria for state intervention, while preserving the general neo-liberal conception of these classical references: the theory of market failures and its developments. Finally, in a very selective way, I discuss a number of theories that depart from the hard core of neoclassical economics. I consider, in particular, some developments of new institutional economics, of new Keynesian economics and of the radical school, primarily because of the sympathy they receive

from a scientific left wing already accustomed to the myth of the market.

Concerning compensation criteria and cost-benefit analysis, I will clarify briefly here how I apply these criteria, as I have discussed these theories also in a scientific article (Gloria-Palermo and Palermo 2005). It is evident that these theoretical contributions have an important impact on the scientific debate and further articulate the normative discourse with respect to the two fundamental theorems of welfare economics. In a paper on the role of value judgements in economic theory, I explain, shortly after the discussion on welfare theorems, the logic of compensation criteria and cost-benefit analysis and the problems that these theoretical developments encounter. From a scientific viewpoint, my attempt is to show that these developments of neo-classical economics do not at all reinforce the neoliberal conception, and that, on the contrary, they depend on it (and therefore crumble with it as soon as the general foundations of welfare economics turn out to be weak). Their discussion is necessary when one addresses a specialised public that wishes to see all theoretical developments examined. However, their omission is appropriate when one addresses a non-specialised public that 'simply' wishes to understand what lies behind the myth of the market, by following the central ideological thread and without getting lost in the details of its many theoretical developments (which in any case presuppose the consistency of the main thought).

#### 6. RADICAL THEORY, NEOLIBERAL LEFT WING, AND NO-GLOBAL MOVEMENT

Steedman is right when he notices that the chapter in which I propose a course of action toward another possible world, made of socialism and democracy, is general and insufficiently developed considering the many practical problems that such a prospect engenders. This, according to Steedman (2004, 125), is a negative fact in itself, and brings him to describe this part of the book as «predictably depressing». Also in this case, however, Steedman does not criticise my reasoning for its eventual weakness or imprecision, but because it answers a different question from his own. Steedman would like to have precise solutions to concrete problems and, instead, as he correctly predicts, this chapter does not offer this. My choice, however, is perfectly coherent with the political motivations of the work. Thus, Steedman rejects the legitimacy of my scientific and political questioning without having properly understood the intentions of the book itself.

The book has a simple yet fundamental objective: to shed light on



the logic and the values that guide neoliberal policies. This, in my view, is an indispensable (although probably insufficient) premise for a radical reconsideration of the capitalist logic of social interaction. There is no attempt to trivialise economic and political problems through the prescription of universal recipes or through an abstract construction of the perfect world. I have no pretence of establishing the laws of communism or of indicating the way for taking the power in the world, or in a single country, for that matter. Indeed, political discussion must be open, and social movements, political parties, trade unions and other social subjects are already active parts of such a discussion. Of course, within this context, I have my personal convictions and I am willing to defend them in a political debate. But I see no particular reason why they should play a special role in the definition of a well-articulated political proposal. A well-developed proposal cannot neglect social and political forces, existing and potential alliances, historical tendencies, strategic objectives and many other factors, which, at best, can only be sketched out in my work. From a political stance, my hope is that demystification of economic theory might help in determining the relations of compatibility (and incompatibility) between scientific and political forces of the critical left wing. Perhaps this is not enough to meet Steedman's expectations. But if my book has contributed to these 'minimal' goals, I do not find it depressing at all.

The radical theory of Bowles and Gintis is a clear example of the dangers of those attempts to develop theoretical and political proposals without an adequate criticism of the underlying theoretical model. That their approach is at the same time an internal criticism and an extension of the general equilibrium model is not, as Steedman suggests, my personal opinion; the authors themselves label their approach «post Walrasian political economy» (Bowles and Gintis 1993). Their main objective is to show that, even in a general equilibrium framework, power relations exist. However, it is clear that once one has accepted the methodological premises of neoclassical theory, methodological individualism above all, post-Walrasian economics can hardly get rid of them. Power relations are thus understood as interpersonal relations, and their social dimension is cast aside, for, according to methodological individualism, social relations do not exist (if not as the sum of interpersonal relations). If I criticise this approach, it is not because I underscore the contribution of the authors to radical political economics; it is because it incorporates all the contradictions inherent in the attempts to develop a radical perspective

by accepting the neo-liberal conception implicit in neoclassical methodological premises.

Until now we have been concerned with criticisms regarding the substance of my book. There is also the question of expositional form, that «purple prose» (Steedman 2004, 123, 124) so different from the way economists write in journals among themselves, which has served to further irritate my critic. The rules of official scientific publications are well known: few words (and many mathematical symbols), absolute freedom in choosing assumptions and apparent terminological and scientific neutrality. In this book, on the contrary, I do not use mathematics (because I do not need it) and I even use 'too many' words, as I take positions on ethical and political grounds as well. This being said, my prose, certainly disrespectful of the rules imposed by scientific reviews, is very useful for me in openly discussing with common readers and with subjects interested in economic issues and involved in social struggles, who are scared by mathematics, not by politics. It is as a militant of a wide movement hostile to neo-liberalism but also, to a large extent, openly anti-capitalistic and communist, that I have felt the need to critically discuss the absolute truths of economic theory. The choice of expositional form is a direct consequence of the kind of debate in which the book intervenes and of the kind of reader to which the book is addressed.

Some economists believe that adherence to the expositional (and methodological) code of orthodox theory is the price to pay to take part in academic debate. They wish to discuss with orthodoxy and thus accept its language and method. As a reward, if they are clever enough, they are given access to the most prestigious scientific reviews. My approach is similar but symmetrical: I fully accept the principle that the choice of the reader defines the expositional code, but I do not accept that my sole interlocutors will be my (scientific) opponent. I do not shy away from a confrontation with economic orthodoxy, but the true reason why I study economics is surely not to publish in the *American Economic Review*.

Theoretical research should not dissociate itself from real changes. Nor can it withdraw into itself as if the world ended at the gates of our universities. Outside of academics, the political debate is heated and the critique is radical. It is up to us, academic economists, to confront and discuss with social subjects who criticise us and who would like to change the world. And yet the great majority of economists remain convinced that this does not concern them. It is with some disappointment that I take note that Steedman, too, believes that vulgarisation and critique are incompatible and that economics and

politics are separate disciplines. And here I thought I had written an accessible critique of political economy.<sup>2</sup>

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2. Steedman rightly notices that the reference to Guerrien 1985 does not appear in the bibliography. I take the opportunity to give it here. The index of the book, which Steedman has not found, is on p. 5.