

IDEOLOGY AND MARKETS: ECONOMIC THEORY AND THE 'NEW RIGHT'

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If you ask an economist to explain how he would predict the exchange rate between fish and fowl in an African village, he would use more or less the same analytical discipline as he uses for explaining the exchange rates between financial instruments in the complicated markets of the West. The basic analytical laws are the same. . . in the African jungle as in the boardrooms of the City.¹

The economic crisis of the capitalist world at the start of the 1980s has been matched by a determined shift in the ideology of economic policies. This shift, misleadingly abbreviated as a move from 'Keynesianism' to 'Monetarism', has accompanied the diverse 'new Right' policies pursued by Thatcher, Kohl, Nakasone and Reagan.

Like all ideologies and policies, this shift is supported and promoted by academic arguments. Milton Friedman is an established theoretician who has become a media star popularising simple ideas in support of right-wing policies, but many others have concentrated on academic and specialised forums to promote new theoretical models. They are nonetheless effective for that, and in economics have succeeded in shifting the centre of debate. The success of the new Right in economics does not stem from the discovery of new truths (indeed, the theories date from the early days of modern capitalism with some new embellishments) but from their partial correspondence with the programme adopted by dominant sections of the bourgeoisie in these times.

In this paper we discuss the character of the new economics, the sense in which it supports and promotes the policies of Thatcher and Reagan (although, we concentrate on Britain) and its relation to the particular set of capitalist interests they represent. We begin by outlining the main characteristics of the economic crisis and the dominant capitalist interests in the context of which Thatcher's economic policies have come to rule. We then outline how in three main areas of economic theory relating to these policies academics of the new Right have contributed to shifting the theoretical framework rightward; and we conclude by discussing the influence of theoretical work on ideology more generally.

Transforming World Capitalism

The economic crisis is international because it hinges on a restructuring of capitalism on a world scale and international capital—the multinational corporations and international banks and funds—take it as an opportunity for a wide-ranging programme to transform the world economy; this, in turn, intensifies the dislocation.

Capitalism continuously transforms the world economy, but in some periods the changes are intensified and involve large qualitative shifts. One such period at the end of the last and the start of this century saw the development of imperialism. Another came after the Second World War in the reconstruction of West European and Japanese capitalism and the opening of world markets to US multinationals.² In the present decade another period of intensified transformation of world capitalism is taking place: this is a culmination and consolidation of shifts that have been occurring over the past two decades, characterised by phenomena such as the rise of some new industrial centres in the Third World. Also, the crisis of the 1980s has been marked by the concerted adoption by the major capitalist states, of policies which strengthen these changes.

The shifts occurring in the last fifteen years have been dramatic by historical standards. In one sense, they add up to the construction of a New International Division of Labour, the most salient feature of which has been the rise of some Newly Industrialised Countries in the Third World as major manufacturing centres for multinational corporations.³ The New International Division of Labour, however, is more complex than is suggested in the simpler interpretations. First, it does not imply a limitless rundown of manufacturing in advanced capitalist countries as a counterpart to some Third World countries' build up: instead, the strategy of multinational corporations (whose presence in Britain is particularly hegemonic) as well as local capital involves restructuring and increasing the profitability of productive capital in Britain as an element in the global whole. Second, the transformation of the world economy involves not only a new division of labour in the narrow sense of industrial and agricultural labour, but also the construction and consolidation of a new international role for financial capital.

These transformations in the world economy are brought about by multinational corporations, banks and a mass of capitalist enterprises of different types. But none of these transformations could be completed autonomously by enterprises. State power is integral to the process, and government policies have promoted this restructuring in different ways at different stages. The policies of Thatcher have been promoted as radical departures from the corporatist strategies pursued until the late 1970s but both the old and the new policies assisted the transformation in different ways. In some respects Thatcher's policy has come late in the process of restructuring, for major elements in the new order were already virtually

in place by the late 1970s. The modern international banking system, creating credit and transmitting funds on a supra-national basis (i.e. without national constraints) was constructed in the Eurodollar markets of the 1970s. Multinational corporations had established systems of worldwide sourcing. And capitalist industrialisation in the leading Newly Industrialised Countries (NICs) such as South Korea, Taiwan, India and Brazil was already well established. In the 1970s, the policies of the US and W. European states had already supported these changes in various ways. However, it is true that the policies of Reagan and Thatcher have marked a new phase.

The new turn in economic policy came about partly because of real difficulties and contradictions in the old, corporatist strategies which had seen pre-tax profits reach low levels, and had not been able to prevent inflation becoming a potential source of popular **discontent**.⁴ But that is not the whole explanation of why Thatcher and Reagan's policies purporting to be a turn toward 'free markets' came into place when they did. While the new world order was being constructed, social and economic relations in the main advanced capitalist countries changed only slowly, with the relations between capital and labour remaining within a similar framework to that established when the last major transformation was consolidated, the early post-war years. Writings on the New International Division of Labour sometimes give the impression that, from the point of view of capital, this legacy doesn't matter for if industrial relations and the social framework make much production relatively unprofitable in Europe and America, profitable production will be built up in the NICs. But in fact, the old bases have never been treated by capital as 'lost causes'. They remain world centres of manufacturing and other industry, and the new economic policies of the past seven years address that fact. They attempt to consolidate the modern transformation of the world economy by significantly changing conditions in the advanced capitalist countries and in their relations with the rest of the world.

At home, their most prominent expression has been state-led attacks on trade union organisation, legal powers, and membership, including the orchestration of mass unemployment. It is an intensification of class struggle within the country to shift the balance decisively toward capital. This has been 'monetarism's' most public face in Britain, involving large-scale unemployment, an increasingly militarised police force confronting striking miners, the breaking up of tripartite (union, employer, state) corporatist bodies, and anti-union **laws** and court decisions.

The ideological arguments brought out to justify unemployment and other anti-trade union policies are that they are necessary to overcome inflation and increase competitiveness by stimulating market forces and competition. These are old nostrums employed by all governments, Labour and Conservative, since the war whenever an offensive against

labour was mounted. Under 'monetarism', they were given a new twist (although one that was familiar from the 1920s and 1930s) by the argument that curbing inflation need not create unemployment, but that union power, by preventing free market forces from operating in the labour market do create it. The basic argument, therefore, is that unemployment can only be cured by breaking trade unions to 're-establish' competitive labour markets.

At the same time, the second element of monetarism has systematically attempted to break up parts of the state's economic infrastructure justifying the project with similar arguments concerning the virtues of the market. The welfare state has been starved of funds in attempts to shift provision toward the private sector; particularly in the case of housing and (because increased funding has not matched the cost of needs) health. Huge nationalised industries, most notably British Telecom, have been sold cheaply to private capital. The ideology justifying these moves is that, once privatised, these industries can be exposed to competition and competitive markets generate an efficient allocation of resources and a dynamic mode of operation. However, as we indicate later, these moves represent new forms of state intervention rather than the state's withdrawal.

The third element of the new conservative policies has been to shift the conditions under which international and local capital operates in the Third World. The cut in aid programmes and the backing given to IMF policies undermine dirigiste government programmes in poor countries, creating the conditions in which multinational corporations can operate on world markets with the minimum of intervention from the national bourgeoisies and their local states. British policy in this respect is part of a concerted campaign to force Third World countries to drop import controls, decrease the size of the public sector, regularise their relations with international banking, and worsen their terms of trade by devaluing their currencies or breaking up their producer-country cartels for commodity exports. (In the latter role, the UK has been particularly important as a major oil supplier whose production and pricing tactics have been designed to undermine OPEC.)

These three sets of policies are firmly located in the offensive the right wing has taken in class struggles on a broad front and the economic transformations to which it relates. From another perspective, though, they are presented as economic policies with a non-political, neutral, and purely technical justification in economic theory. In the following pages we examine new contributions to the theory and the ideological, political and non-neutral functions they perform. An immediate indication is this. The theories we review all claim to demonstrate the virtues of free markets. The concept of free markets (which is itself untheorised and treated as unproblematic) is presented as the opposite pole from state intervention

with the result that state involvement in the economy is shown to be harmful (or irrelevant). But the policies actually adopted by the new Right on the basis of the ideology which these theories inform is extremely interventionist. Instead of 'pushing back the boundaries of the state' the new Right's policies are a shift in the character of state intervention in line with a changing balance of forces and material interests, while new Right theorists have provided justification for them on the quite different grounds of achieving the best results within an economic model. It comes down to the classic double in ideology: theories claiming to show which policies are in 'the national interest' provide a cloak for policies to further the class and sectional interests of the bourgeoisie.

Monetarism: 'We were regarded as cranks'

Two priorities seem to have dominated the Thatcher Government's economic thinking. The first, through the adoption of the medium term financial strategy (MTFS), is to control the level of inflation. The policies concerned are to limit the expansion of the money supply and, associated with this, to limit the overall level of government expenditure. This is presumed to keep down the government budget deficit which would otherwise have to be financed by increased state borrowing, increased taxation or by increased usage of the Royal Mint's printing press. In orthodox Keynesian thinking, these propositions and policies might be thought to have some validity in conditions of full employment where the only consequence of increased demand at the macroeconomic level can be inflation rather than an increased level of output from the use of otherwise unemployed resources. Clearly, the intellectual orientation of the Government's monetarist policies is indifferent to the level of unemployment, at least in Keynesian terms.'

This brings us to the second priority, which is quite simply to remove unemployment from the state's agenda. In a weak form, this is justified on the grounds that there is little that can be done about it directly other than to improve the workings of the labour market, to which we return later; and that the control of inflation is the sole key to success across all other economic objectives.⁶ In a stronger form, disregard for the level of unemployment is linked to the idea that involuntary unemployment simply does not exist. This has had its most popular expression in Norman Tebbit's exhortation to the unemployed to get on their bikes⁷ and is associated with the notion of the unemployed as work-shy and benefit-hungry.

The policy triumph of monetarism over Keynesianism has if anything, been less dramatic than the 'revolution' that has taken place in academic economics over the last decade, especially once we recall the monetarist leanings of the last Labour Government following its deal with the IMF in 1976.⁸ There has not been a gradual and consolidated displacement of

Keynes by Friedman, for even the monetarism of the latter has been appropriated and then cast *aside* by the emerging school of 'new classical economics'. Let us see how.

Throughout the post-war period, the intellectual triumph of Keynesianism was associated with demand management policies which were designed to steer between the competing claims of full employment and price stability. With such an orientation in the ascendancy, monetarism was aimed at stressing the inflationary effects of increases in the level of demand at the expense of output and employment increases. The gathering inflation and stagnation from the late sixties onwards added empirical support to the monetarist cause. In particular, the Phillips curve, an inverse relationship between unemployment and inflation, which has been empirically observed and later theoretically justified, appeared to have broken down. It had suggested that there was a policy trade-off between the level of unemployment and the rate of inflation, but this was inconsistent with stagflation, where inflation and unemployment increased together, dramatically in the early seventies.

A major intervention by Friedman was to argue that unemployment could be decreased in the short run but only, above the natural level of unemployment, at the expense of accelerating inflation.⁹ The reason for this was that economic agents, say workers, would anticipate the coming inflation and inflate their own money wage claims to preserve their real level of wages. Any attempt to sustain the level of employment in this context would lead to upwardly spiralling prices as wages chased but never caught advancing prices (and vice-versa).

Until recently, the significance of this result would have been discussed in the following terms. First, while government policy can affect the short run level of unemployment, it can only do so to a limited extent and at the expense of accelerating inflation. Second, expectations (by workers, for example) about the future price level assume enormous importance within the theoretical construction of the economy (since they base their wage-bargaining upon the expected future price level). Third, there is an underlying presumption, as with all monetarism with its commitment to *laissez-faire*, that the economy has a natural propensity to move to full employment¹⁰ through the market mechanism in a way and with a speed that is superior to anything that can be accomplished by government macroeconomic intervention. While Keynesianism denied such perfect workings of markets, it did also accept the theory of inflationary expectations but sought to cope with them by income policy. In short, monetarism and Keynesianism shared a good deal of common ground.¹¹

During the seventies, this compromise became increasingly questioned by the new classical economics (NCE). Whilst inspired by Friedman, simple but crucial breaks were made with his analysis on the grounds that

he had conceded too much to Keynesianism. The point was to deny that there was any discretion for economic policy to affect the level of unemployment, even in the short run, as Friedman had conceded, and at the expense of accelerating inflation." Government policy had become powerless in anything other than a negative sense.

The intellectual innovation that made this possible was a reformulation of the theory of expectations formation. Previously workers for example, were induced to work more fully by the unsuccessful pursuit of higher incomes. These are never attained because the price level keeps ahead of their expectations, even though these are revised upwards. For NCE, such economic agents are irrational to keep on underestimating the level of inflation in their wage bargaining. Eventually, they will learn to anticipate inflation correctly so that fuller employment cannot be bought at the expense of inflation. The principle, however, becomes more broadly applied to state economic intervention. The state becomes powerless since the intent of any policy that it adopts is understood and anaesthetised by a compensating rational reaction by economic agents.

This use of so-called 'rational' in place of 'adaptive' expectations is the only intellectual innovation to underlie a presumed revolution in macro-economic~.~In principle, it requires that individuals know as much about the economy as economists or the government. It has led to a response by economists to the current crisis of capitalism in terms of how well the person in the street understands and predicts the economy: 'The public's expectations are not systematically worse than the prediction of economic models.'¹⁴ Paradoxically, although NCE along with economics more generally is extremely and increasingly complex, conceptually, mathematically and in the use of statistics and computing, the notion that everybody else is as good as the specialised economist is also used to downgrade economists relative to the public, and so acts as a source of popular appeal against an unholy alliance of economists, intellectuals and the state."

Whilst rational expectations are the basis for the break of NCE with Keynesianism (and with Friedman's monetarism), NCE does not by itself explain the conclusion that systematic government policy is ineffective. As Keynesian criticisms of NCE have observed, its continuities with monetarism are essential for its results. In particular, the most important new assumption is that markets work perfectly, that supply and demand are instantaneously brought into equilibrium by appropriate price adjustments. In the absence of this assumption, there are plenty of Keynesian models of the economy which include agents with rational expectations and which restore the effectiveness of governmental macroeconomic policy.¹⁶

This makes clear the ideological role of NCE. Since it was formulated by Adam Smith, the theory of *laissez-faire* has within the mainstream allowed for government intervention where economic conditions violate

the assumptions necessary for the efficacy and harmony of markets. Following the marginalist revolution of the 1870s, the formulation of general equilibrium theory separated out the 'real' economy of what is produced and how and at what *relative* prices from the money economy which determined the *absolute* price level through the quantity of money made available. Consequently, economics constructed *laissez-faire* as the central aim from which government intervention was justified only by way of specified exception. The Keynesian revolution reversed this priority and perceived unemployment equilibrium as the rule and full employment as the exception, so that government policy became essential. It did so by rejecting the separation between the real economy and the money economy so that, for example, expansion of the money supply could lead to an increase in employment and not just an increase in the price level. In principle at least, this demise of *laissez-faire* was accepted by monetarism—demand management could have an effect if this was at the expense of accelerating inflation. What NCE has done is to restore the *laissez-faire* proposition even for the fully integrated real and money economy.

It has done so in response to the rise of the governments of the new Right, particularly in the United States, where NCE has a strong hold, and in the UK, where NCE has not been well-received within academia. But the rise of NCE cannot be explained crudely by reference to its serving the needs of monetarist governments, who were in any case served well enough by Milton Friedman and his followers." Nor can NCE be explained by the remorseless progress of bourgeois economics as it improves its theory of expectations formation. For the idea of rational expectations was first put forward by Muth in 1961 and was effectively ignored for almost a decade. The idea was only taken up in the context of the externally re-emerging political ideology of *laissez-faire* in the seventies **and** as a way of fulfilling an internal need for the academic economists to generate new areas of research and controversy. Where previously the debate between monetarists and Keynesians was well-worn and withering, now monetarists **and** Keynesians could re-engage on the new terrain of economic models with rational expectations.¹⁸

In short, NCE has both shifted the **organising** principle of economic ideology away from government intervention towards *laissez-faire* and rejuvenated economics as an academic discipline. In this, it is important to recognise that NCE does not eschew government policy altogether. First and less important, unsystematic or 'surprise' policy may have an effect since it or its effects are not anticipated—economic agents may be fooled for a short time when an unexpected policy is adopted. Second, the assumptions for policy ineffectiveness may not hold—to the extent that economic agents are not 'rational'¹⁹ or if markets do not clear instantaneously, as Keynesians would argue. As Sargent and Wallace argue: 'The point of this example was to show that within precisely that

model used to rationalise reactive monetary policies, such policies could be shown to be of no value. It hardly follows that all policy is ineffective in all contexts.³⁰ This allows the state in principle, to intervene to improve the workings of the market, something in practice, which is essential to weaken labour's position within it and to settle divisions amongst capitalists.

In theory, this does not leave much more than a small opening for interventionist policy since for NCE the assumptions of *laissez-faire* are more or less sacrosanct and only to be rejected by statistical testing, something which has proved within economics, to be notoriously difficult to do for any theory:

We impose two requirements on an economic model: **first** that it be consistent with the theoretical core of economic—optimising behaviour within a coherent general equilibrium framework; and second, that it not be refuted by observations.³¹

But one of the clearest empirical refutations of NCE would appear to be the persistence of mass unemployment—hardly compatible with instantaneous market clearing in the labour market. NCE does not deny the possibility of unemployment. It is either the consequence of random shocks, unperceived events in the economy to which adjustments have to be made over time, or unemployment is put down as voluntary and not necessarily sub-optimal, these together making up natural unemployment. In response to the question:³²

Your equilibrium modeling strategy seems to be essential. . . The question that always comes up is how can you explain depression, how do you explain a 9.4 per cent unemployment? Can you explain it all by referring to mistakes or to information problems?

Comes the answer by Lucas:

Well, what's the alternative?

Where this proves inadequate, appeal is made to an unexplained increase in the natural rate of unemployment. Referring to the Great Depression Lucas continues:

Accountants who lost their accounting jobs passed over a cab-driver job, and now they're sitting on the street while their pal's driving a cab. So they wish they'd taken the cab-driver job. People are making this kind of mistake all the time. . . The biggest puzzle is the changes in the average, the natural rate. . . I've heard a lot of stories, but I don't know if that problem has been nailed down.³³

Essentially, this leaves unemployment unexplained except as a voluntary act, possibly mistaken, as workers learn that they have to take a new job at a lower wage. It makes sense for them to spend time searching to find this out in the absence of perfect information.

This (lack of) explanation of unemployment does not always accord with the needs of policymaking. For one of the enduring attractions of NCE and the monetarist tradition is its faith in the forces of the market and of individual optimising behaviour. It is not simply that the market works well where it is allowed to work but that it also asserts its influence even where attempts are vigorously made to exclude it. For this reason, the role of monopolies and more important, trade unions, is limited in the pure NCE view of the economy since, however active they may be, their effect tends to be swamped by the pressures of individuals pursuing their own self-interest through the market. This is a far from adequate basis on which to launch an attack on the working class. Even though NCE claims that trade unions are ineffective, the emphasis in the **UK** has nevertheless been on labour market conditions and deregulation.

In the **UK**, the leading monetarist intellectual has been Patrick Minford. He points to two major factors explaining unemployment within a NCE framework.²⁴ First, the levels of unemployment benefit have been so high as to encourage voluntary unemployment and second, trade unions have pushed up wages so that those in the non-union sector are unable to obtain reserved jobs in the union sector and choose to exist on a non-union job or benefit (or both in the black economy) instead. The details of his argument need not detain us but the policy conclusions imply a reduction in benefits, industrial relations legislation to weaken the trade union movement and other measures such as the abolition of wages councils.

Alan Walters however, rather than Minford, has been the most important monetarist in the **UK** since he served as economic adviser to Mrs. Thatcher from January 1981 until October 1983. Writing an account and defence of his experiences, he acknowledges a debt to Minford but does not see himself as so extreme an adherent to NCE.²⁵ Nonetheless, he refers the reader to Minford 'for an excellent account of the problem and its solution' when referring to unemployment as 'the most pressing economic problem of the economy'. Surprisingly then, in outlining the major tasks facing a Conservative Government, anticipating being in power for at least eight years, unemployment is not even mentioned and emphasis is placed entirely on financial stability, deregulation of the economy, privatisation and trade union reform.

Walters considers his time as economic adviser has been a success and implicitly takes credit for this: 'I cannot complain that the policy of 1981-3 differed fundamentally from that I thought desirable.'²⁶ This view of success of course, is at odds with almost all opinion that does not ally itself immediately and unthinkingly to the Government. Keegan for example comments on

a Conservative administration after 1979 [which] allowed the country to suffer the worse recession since the war, with manufacturing output dropping by nearly

20 per cent and unemployment more than doubling—from 1.3 million to nearly 3.5 million in 1983.²⁷

Walters is, however, quite used to being out on a limb as far as his fellow economists are concerned.²⁸

When a team of us in Birmingham started collecting and analysing data on the UK money supply from 1960 onwards, we were regarded as cranks, . . . at least we were not stopped or banished to a psychiatric hospital! Having identified monetarists as cranks they were automatically assumed to be harmless. But that did not mean that monetarists were welcome in the great Universities of the United Kingdom. Naturally, academic economists appoint and promote economists who have ideas which are broadly consistent with their own. Understandably, they do not like doctrinal conflict.

He goes on to explain that monetarists were more or less confined to the University of Liverpool (most notably, Minford), the City University (Brian Griffiths) and the London Business School (Terry Ward and Alan Budd).

Here he conjures up an image of the economist in the wilderness, treated as a crank and heroically sticking to his judgements in the face of opposition from a self-serving orthodoxy.²⁹ Only organisations such as the Institute of Economic Affairs and equally crank politicians, like Sir Keith Joseph, allowed for survival. But once the former cranks were in power, it was the economic profession as a whole that was to become the new cranks. In April 1981, 364 British economists signed a statement condemning Mrs. Thatcher's budget:

There is no basis in economic theory or supporting evidence for the government's belief that by deflating they will bring inflation permanently under control and thereby induce an automatic recovery in output and employment. Present policies will deepen the depression, erode the industrial base of our economy and threaten its social and political stability. There are alternative policies. The time has come to reject monetarist policies and consider urgently which alternative offers the best hopes of sustained economic recovery.

Walters' response was entirely within the Thatcher mould.³⁰

The statement probably had an effect which was the opposite of what the signatories expected. If anything, it reaffirmed the government resolve and frightened only the fearful. Academic economists had sunk so low in both ministerial and, I believe, popular esteem that the conjunction of so much academic opposition was taken as some faint confirmation that the policy must be right—or at least not obviously wrong.

Walters' crank monetarist position in the past rendered him entirely suitable as the Prime Minister's adviser, to the task of dismissing all

criticism from the previously established conventional economists.³¹

Necessarily, the rise of NCE and the respectability of monetarism became reflected in the Treasury view. In this view, Friedman was no longer an extremist and NCE just a little too impetuous: 'The monetarists who gave evidence may therefore be divided into two groups, the "Gradualists" [like Friedman] and those who believe that in principle inflation can be eliminated much more quickly without extra cost and who may be called the "New Classical" school.' Laidler, a leading British follower of Friedman: 'applauded the fact that the Government had avoided the sort of "instant" monetarist policies which are endorsed by the New Classical school and claimed that the Government had instead adopted a Gradualist stance',³² with Milton Friedman defined as a moderate.

Let us see what advice Walters was offering. How is unemployment explained? 'First, the great majority of those who are unemployed, and actively seeking work, are jobless because wage costs were too high. . . Secondly, a much smaller increase in unemployment has occurred because . . . it is not profitable for the worker to get a job; he will consider himself better off drawing benefits and supplementing with income from the black economy.'³³ This explanation is supplemented by 'the demonstrable overwhelming power of trade unions'³⁴ and hostility to public enterprises which 'are consistent with "(David) Friedman's Law", namely, that public provision doubles the cost'.³⁵

Hence, the Government's objective has been to reduce the level of wages (or at least to keep their increase below the level of productivity increase): 'The evidence suggests that, in Britain, a 1 per cent change in the average level of real earnings will, in time, make a difference of between 0.5 per cent and 1 per cent to the level of employment that will mean, in all probability, between 150,000 and 200,000 jobs.'³⁶ The evidence referred to is to be found in a Treasury paper, first presented at a meeting of the NEDC in April 1982. As was later admitted: 'The simulations on the Chancellor's paper received quite a hostile reception from the government's critics, who suspected the Treasury of adjusting the model to produce the results it wanted to produce.'³⁷ Particularly contentious was the arbitrary upward adjustment of the long run performance of the economy as a supposed reflection of the positive impact of the Government's policies. This echoes Walter's own view that: 'There remains the Thatcher factor—the compendium of ambient macroeconomic stability and microeconomic reform. On general grounds it seems likely, to put it no higher, that productivity must respond favourably under conditions of increased stability and freedom.'³⁸

Yet, on the very same page as he claims stability as an achievement of Mrs. Thatcher, Walters is forced to recognise that 'the coal strikes of 1984 has made the statistics difficult to interpret'. What is not acknow-

ledged, however, is that the strike itself stood as proof that the 'conditions of increased stability' (let alone 'freedom') were not realised. As we see the economy through the looking glass of Walters, where failure is turned into success, and the absence of any explanation of that success (not surprisingly) is transformed into praise for failed policies, we can only retain our senses by taking note of Walters' own remark on the dismal science of economics: 'ignorance of the cause of cancer is no reason for not exposing a *quack*'.³⁹

The Resurrection of Laissez-Faire

In the previous section, we have seen that the alleged cure for unemployment is lower wages. Whilst unemployment is presented by the Government as an unfortunate, but short term, consequence of the longer term beneficial Medium Term Financial Strategy, it would be more realistic to view unemployment as a policy objective to weaken the position of labour. This aim is aided by other labour market policies, euphemistically described in discussion of industrial relations legislation as attempting 'to restore a better balance of bargaining power in *industry*'⁴⁰ and, apart from attacks on trade unions' legal rights to strike, include other measures such as abolition of wages councils and reform of social security to weaken labour's bargaining position. These policies are invariably described as restoring market forces to the labour market, in particular, but they are in fact, and rather obviously, state interventions on behalf of capital in its conflict with labour.

We do not discuss these measures further *here*.⁴¹ Rather we focus on the justifications for *laissez-faire* in the context of industrial policy with particular emphasis on denationalisation. Whilst Walters' view on the deregulation and privatisation of the economy are uncompromising, a more important academic representative of the new Right and a policy-maker appears to have been Stephen Littlechild. He has a similar pedigree within the economics profession to Walters but from much humbler origins. Groomed by the IEA, he also has seen himself on the margins of the discipline, as a supporter of the Austrian school of economics associated with *Hayek*.⁴² As such there is little claim to theoretical innovation other than to reintroduce a neglected tradition of

Littlechild sees the Austrian school as *laissez-faire* but on different and antagonistic grounds to the outlook of monetarism. It emphasises how the market allows individual entrepreneurial initiative to prosper and perceives this as a dynamic element of change rather than seeing the market in the static context of the full and efficient allocation of resources: Thus: 'It might be argued, therefore, that Austrian economics provides a *generalisation* and *redirection of neo-classical thought*, rather than a "root and branch" replacement for it.'⁴⁴ The superiority of the market is almost

axiomatic and unchallengeable: 'It is not surprising, therefore, to find that Austrians have for the most part eschewed empirical and statistical work. They have concentrated on deriving propositions of a *qualitative* rather than quantitative nature. These propositions follow from the basic insights into human nature. . . For this reason, it is envisaged that such propositions will be true for *all* times and places rather than only for specific times and places.'⁴⁵ As such the market should be made inviolable to the intrusion of special interest groups exercising pressure on government, by the creation of a longstanding legislature with only gradual replacement of its members: 'The purpose of this separation of powers is, of course, to create a legislature which is not subservient to the momentary pressures of government, and hence which severely limits the responses which governments make to immediate political pressures, in order to protect the long run interest of these same people.'⁴⁶

Notably, Littlechild's concern is to defend monopolies to which the Austrian, as opposed to the neoclassical, school is not hostile. For the pursuit of monopoly profits is innovative, and the competition through entry to the sector concerned which these will induce eventually is the guarantee of efficiency. As an example, Littlechild refers critically to the repayment to the NHS by Hoffman-La Roche of excess profits earned on Librium and Valium, arguing that this will stifle the development of new drugs. Given the damaging epidemic proportions in which these drugs have been used, we must only live in faith that these new drugs will be less harmful. Littlechild has praised advertising as the bearer of information for consumers: 'There is an important role for the manufacturer in bringing these new products to their notice.'⁴⁷ The high pressure salesmanship that is used by pharmaceutical companies, for example, within the medical sphere goes unmentioned. The ultimate customers receive the pills, not the information. The benevolence with which private monopolies are perceived is matched by an equal hostility to nationalised industries: 'The misallocation of resources is an inherent consequence of nationalisation, and in many cases the public interest could better be served by denationalising industries or "hiving off parts of them. . . the introduction of private capital and the abolition of restrictions on competition are essential elements of an adequate framework for controlling the remaining nationalised industries.'⁴⁸

This then, is the ideological background to the economist who was appointed to the Monopolies and Mergers Commission and who acted as adviser on the privatisation of British Telecommunications and the Water Authorities.⁴⁹ For the former, it was argued that any regulation would be temporary until such time as the industry became competitive. The presumption, without justification, is that public enterprise is less efficient than the rest of private industry which it will come to match after privatisation through the passage of time. Consequently, on all criteria of

performance other than temporary monopoly profits until competition comes along, no regulation is judged to be the preferred policy. In the meantime, regulation, over and beyond security of supply as guaranteed by legislation, is restricted to loose price control: 'Competition is indisputably the most effective means—perhaps ultimately the *only* effective means of protecting consumers against monopoly power. Regulation is essentially a means of preventing the worst excesses of monopoly; it is not a substitute for competition. It is a means of "holding the fort" until competition arrives.'⁵⁰ This gives the industry the ability to develop more or less as it chooses in pursuit of profitability and represents no more than a token recognition of telecommunications as an essential service.

There are two interesting aspects of Littlechild's considerations which expose the true apologetic nature of his contribution. The first is that in making recommendations for the regulation of British Telecom, next to no analytical nor empirical material is presented which bears specifically on the telecommunications industry. Neither reader nor writer need know anything about the sector, except that it is being considered for privatisation. Littlechild's conclusions depend on the abstract reasoning of the Austrian school alone, with its facile faith in the innovative and organisational benefits of management in private hands under the regulation of the *laissez-faire* market. Second, this purely abstract reasoning is abandoned in practice, in the short term, because of the static monopoly power that could be exercised by a privatised BT. This pragmatism is hardly surprising, for we do not have here an appeal to *laissez-faire* simply to strengthen capital against labour, as in the reform of industrial relations. What is involved is an intense competition between capitalists over the telecommunications sector. An unregulated BT would be unacceptable both to its potential rivals and to its business (the major) consumers. In the latter case, this includes regulation of the level of charges but much more is involved in the competition between capitals to gain access to a place in producing for the rapidly expanding, broadening and changing telecommunications sector.

Littlechild confidently predicted that no excess profits would be made on the sale of BT because, with regulation in place, future profitability will be reflected in the competitive bidding for shares, prices for these being higher or lower, as regulation is respectively less or more *severe*.⁵¹ Events have proved otherwise, with the share price doubling overnight, following flotation and in any case, as the shares become concentrated in the hands of parties interested in the industry, so they will be able to press for amendments in regulation to improve *profitability*.⁵² More generally, the approach adopted by Littlechild here reflects a favourable assessment of the Stock Exchange as an agent of competition. If any enterprise is making excessive profits or incurring excessive costs (for example, through loose regulation), it will be taken over via stock purchases

so that this operates as a mode of competitive control. *This is so even where there is no competition in the product market*, as Littlechild argues for the privatisation of the water authorities, where he recommends a mixture of regulation through the discipline of a regulatory body, which can compare one authority with another, and through the threat of take-over bids.⁵³ The negative results of monopoly power, which are potentially antagonistic to other capitals, are recognised but only at a secondary and temporary level. Specific recommendations for industries such as telecommunications and water are made on the basis of such abstract principles with a minimum of empirical analysis and this extends to supporting propositions concerning the efficacy of the Stock Exchange and the presumed efficiency of British managers, once they are free to pursue profitability.

In the case of Littlechild, we find an economist who has shot to prominence as an economic adviser, not because of monetarist beliefs but because of his fundamental commitment to private capital and regardless of his jaundiced view of political democracy. His influence may be a more telling one than that which is presumed to emanate from the debate between 'monetarists' and 'Keynesians', cranks, quacks, and all.

Economic Theory and the Third World

While the 'theory of markets' has been developed and promoted to dominate academic views on policies to transform the major capitalist economies, equivalent powerful ideologies have been shaped to underpin the policies of international capital in the Third World. Since the recent period has involved the transformation of world capitalism, the Third World has been in the frontline. The changes that have occurred, and are occurring in Third World economies are the product of several forces: conflicts and collaboration between different classes and other social groups within Third World countries; the state policies of their ruling classes and the form of the state; the accumulation policies of multinational corporations and banks; and the development strategies imposed by the US and European states, to a large extent through the IMF, World Bank, OECD and other multilateral institutions.

The strategies of the major capitalist powers require each Third World state itself to adopt appropriate policies. This imperative is effected through the leverage each has in crucial areas. The IMF has leverage through its ability directly to finance balance of payments deficits and its partial ability to influence private bank lending; the World Bank through its control of the major institutional source of development credit; and the US and W. European states themselves through their regulation of various types of aid (however small). The extent to which these 'external' pressures have successfully shaped Third World governments' own policy directions is a mark of the weakness of Third World states.

However, the strategies advanced by the major capitalist powers and the policies that are pursued by Third World governments do require more theory as provide an ideological base to secure the policies' hold. In the 1970s a remarkable push succeeded in establishing new theoretical models which supported the twin poles of international capital's strategy: opening up Third World economies to the international market (the switch from import-substitution to export-orientation), and providing the conditions for the expansion of banking and financial capital in the Third World. The two most prominent theorists in these areas are Anne Krueger and Ronald McKinnon.⁵⁴ Their significance derives in part from the simplicity of their theories, which incorporate traditional neo-classical ideas with a few new twists; and in part, from their 'populist' success in appearing to connect with real problems such as corruption and bureaucratic inefficiency. Both are reflected in the positions of power they have reached. Anne Krueger became the Reaganites' Vice-President of the World Bank in charge of research with a direct influence on policy, while McKinnon's work for US AID and other agencies gave him a direct influence over the economic strategies of Pinochet in Chile, the military junta in Argentina and elsewhere. The right wing American National Bureau of Economic Research funded the large research programme headed by Krueger and summed it up well in the foreword to one of her books: 'Academic scholars are sometimes accused of ignoring the world's major problems and concentrating on trivial ones because they are more easily understood and solved. That is a charge that cannot be made against [Professor Krueger].'⁵⁵ Krueger and McKinnon are indeed well-suited for the ambitious tasks of international capital in the current period of transformation.

The key element for each of these writers is the demonstration that state intervention in the workings of markets is detrimental. Their particular targets are specific forms of state intervention: to criticise import-substitution policies and state controls over imports is principally at issue for Krueger, while policies which impose limits in the Third World to the development of banking and of financial and capital and regulations which control interest rates are the problem on which McKinnon focuses. But the general case against state intervention is broader. In part it rests again on the old theoretical proposition that has dominated neo-classical economics in the twentieth century, that decentralised decisions taken by competitive individuals responding to market signals generate an optimum allocation of resources which no central planner, however well informed or benign, could hope to match. The new argument added by these writers is that state intervention causes further waste in the Third World because under it, there is a particular **burgeoning** of unproductive activities. It is not just that the state machine itself has to employ a large bureaucracy draining skilled personnel from the rest of the economy. Their argument is that the private sector itself is diverted mainly toward trying to obtain

favourable treatment from the state.

Anne Krueger's 1974 article in the *American Economic Review*⁵⁶ developed a formal model of these activities. Ranging from the bribery of government officials (to obtain import licences for example) through attempts to secure places for relatives and friends in key positions in the bureaucracy, to spending resources on locating the firm near to government offices, they are all embraced under the heading of 'competitive rent-seeking' activities. They all involve a diversion of resources away from the 'optimal' allocation that would result from free market forces. The term itself requires some explanation. Here 'rent' does not mean the income from land or buildings. It is used in neo-classical theory as a bastardised derivative from Ricardo's theory of rent and stands for any form of income ('excess income' in a sense) which derives from holding some monopoly position. Holding an import licence for example, confers the power to receive a rent because import licensing restricts the competition among importers and enables the licensee to sell at higher prices than he or she could in a competitive market. 'Competitive rent-seeking' therefore involves the competition to acquire a privileged or monopoly position which confers the extra power to make money. In the words of Bagwhati, Krueger's fellow theorist of the market and export-led growth, the 'arranging' that has to be done to acquire such positions is 'directly unproductive profit-seeking'.⁵⁷

The theory of competitive rent-seeking is simple. Comprising a formal model as it does and being susceptible to quantification in principle, it contributes to the apparent academic rigour of arguments against direct state controls over the economy. In the wider arena, its strength comes from its concentration on a real, unpopular phenomenon, the existence of corruption, privilege and power in Third World markets and its apparent ability to explain and remedy it. The blame does not lie with the markets, but with the fact that states prevent them from operating according to their own laws; the remedy is that the state should withdraw from the markets. Krueger argues that the market will get a bad name for faults which are imposed on it and the result will be the overthrow of market-based (capitalist) economies in the Third World unless the state, with the rent-seeking activities that follow it, is forced out of interventions in the market.

The 'competitive rent-seeking' model is part of the Right's armoury against state intervention in general; it merely adds to the array of arguments developed over the years based on the idea that free competitive markets without monopolies and opportunities for manipulation are a natural order only distorted by state activities. It is as spurious as the other arguments of welfare economics. Although developed in the context of policies for the Third World, the new Right was quick to apply the concept to attacks on state intervention everywhere.⁵⁸

For Krueger the theory was principally directed at the specific policy of import controls. Neo-classical economics had long argued that a country is weakened and its development inefficient if its government discourages imports, and that it is harmed more if they are restricted by direct state management through import quotas and licences than if they are regulated indirectly through import duties which work through market forces. The 'discovery' of rent-seeking activities by potential licensees was presented as an additional element in that case.

The arguments against import controls were issued at an increasing pitch and published in a swelling flood in the 1970s and early 1980s. Their target was the key instrument that had been used by Third World countries' national bourgeoisies in the previous decades to foster import substitution policies. Despite these policies' particular class origins and the frequently disastrous and ill-conceived manner of their implementation, at their best they were intended to stimulate industrialisation within an economic system designed to meet national needs. They rested on the state impeding international market forces, especially by controlling imports, to break their power to fragment the economy and subordinate it to international capital. The new Right's attacks concentrate on import controls in order to break import-substitution strategies, to open Third World economies to the international trade that multinational corporations require.

If import controls are abolished and import duties, although seen as better, are also undesirable, what is to prevent poor countries being bankrupted by their citizens and firms over-spending on imports? Market forces themselves, we are told, will solve the problem. The foreign exchange market would drive down the exchange rate. This would discourage imports by raising their price and encourage exports by making them cheaper for foreigners. This would, therefore, be an essential component of an export-led strategy to replace import substitution. Since Third World countries administer their exchange rates, this strategy implies they should devalue, lowering the rate to a level simulating the free market rate. Attacks on import controls are accompanied by calls for devaluation; these are the two, almost universal ingredients of IMF stabilisation programmes but they are highly controversial and their validity is not automatically assumed in orthodox economics. Arguments with a broadly Keynesian pedigree were used in the import-substitution decades to justify the view that devaluation would not work since the response of importers and purchasers of exports would be too inflexible. The new Right's enterprise has included funding a series of theoretical and empirical studies to counter this 'elasticity pessimism'. One of the largest was headed by Krueger and concluded that 'export-oriented' policies (in other words, the free trade plus devaluation policies imposed by the IMF and other agencies) do stimulate growth. A subsequent series of country studies

under Krueger were directed to showing that export-oriented policies not only promote growth but can also reduce unemployment.

At stake in establishing the dominance of the new Right's ideas is the basic theoretical framework—the proposition that markets allocate resources in an efficient, growth-promoting manner while the state cannot. The accumulation of evidence and country studies only provide the back-up. In some cases the theoretical framework is extremely simple, involving no more than the presentation of first-year students' demand and supply diagrams, so that the empirical context takes over the argument.⁵⁹ However, McKinnon's work as did Krueger's starts from a new, and different theoretical formulation of well-established neo-classical propositions. This time with the attention focused on credit markets.

McKinnon's theory is a modern version of the abstinence theory of accumulation, the proposition that capital grows because people save in response to high rates of interest which reward them for abstaining from consumption.⁶⁰ The theoretical innovation is the argument that high interest rates have this effect in Third World countries through transforming their financial system and stimulating the growth of the national banking system as a channel for savings. As in Krueger's work, the argument is formulated in a manner which has populist attractions. The alleged beneficial effects of high interest rates channelling savings through banks to any farmer or entrepreneur who judges his or her investment plans to warrant paying interest on the banks' credit is contrasted with the system adopted in the 'import-substitution' period, when states held interest rates at low levels (below 'market equilibrium' interest rates) and themselves controlled the allocation of credit. It is argued that under state control (but not under bank allocation with high interest rates) credit becomes allocated to privileged groups and cliques, who, in the terminology subsequently developed, engage in competitive rent-seeking.

Over and above anti-statism, the populist attraction of McKinnon's theory rests most strongly on its claim to increase self-reliance. High interest rates and a developed banking system would enable a country to generate and effectively utilise its own capital instead of relying on foreign capital and aid. But, McKinnon's claim that the model offers a route to self-reliant ('bootstraps') growth is at variance with its actual implications. The 'liberalisation' policies it prescribes include liberalisation of all credit flows so that foreign exchange restrictions too are abolished. The combination of high interest rates, profitable and expanding national banks, and a foreign exchange freedom actually produces ideal conditions for large inflows of foreign credit.⁶¹ Indeed, the countries which have adopted high interest rate policies such as South Korea, Chile and Argentina were among the main recipients of credit, becoming heavily dependent on the international financial system.

Thus, the main thrust of the theory of high interest rates and growth

in banking is to provide the conditions in which international financial capital can operate in Third World countries profitably and relatively free of ties imposed by the national state. It is the twin of Anne Krueger's policy to demolish import controls which serves the trade and accumulation policies of multinationals' commercial and productive capital.

Ideology and economic theory

These developments in bourgeois economic theory relate to distinct areas of policy, each of which has been a strategic area for state action: macro-economic policy on unemployment and inflation; attacking the power of trade unions (described as 'trade union monopolies') in the labour market and of nationalised industry ('monopolies') elsewhere; and reducing the tendency of Third World states to intervene against international market forces. Each is a development in the theory of markets, the body of theory that has been at the core of bourgeois economics since the late nineteenth century. And each, in one way or another, is a restatement and refinement of the basic tenet of that theory, of the argument that claims Adam Smith's 'invisible hand' as its antecedent—that 'free markets' work best and certainly promote economic welfare better than systems with a high degree of state intervention. Although the conclusions are old, as are the theories' foundations in a theory of society as the interaction of individuals' rational choices, the modern writers we have discussed have added new refinements to the basic model and in several cases generated a theoretical and academic stir. Most notably, the theory of rational expectations has completely altered the terms of academic debate over the labour market and the theory of state policy toward unemployment and inflation whilst consolidating the basic market theory.

But the new theories have come onto the academic and policy agenda at a key time in capitalist world development; changes in the academic climate occurred as a turning point was reached in capital's transformation of the world economy and in state policies with respect to full employment, trade unions, nationalised industries and international trade. From a Marxist standpoint, these theories' prominence in recent years can be understood in the context of material developments. This accounts for the manner in which theories shifted from being obscure and on the unorthodox fringes to being centre-stage; the path Alan Walters has said characterised the progress of his monetarist ideas from the 1960s to his installation in Downing Street. To understand the shift in economic theory this way is the opposite of the idealist version of 'discourse theory' which see theoretical developments arising from the internal dynamic of discourse itself.

Any such Marxist explanation runs severe risks, ranging from the dangers of 'functionalism' when everything that happens is seen as serving the needs of capital (so that having a function for capital is the only

condition of existence for a hegemonic theory) to the danger of conspiracy theory in which academic work is seen simply as the result of a ruling class design to produce whatever ideological weapon is needed at a particular time. But a Marxist perspective can avoid these dangers by recognising the complexity of the connection between theoretical and material developments and by clearly locating the specific role that the new ideological economics has in the current phase of capitalism.

The first thing to note is that the new ideological economics has had a strong role for some sections of the bourgeoisie but not all. Its arguments for the power of markets and against statist or corporatist capitalism (even in traditional macroeconomic areas and wages policy) have been elements in the specific political attack that Thatcher has led against those sections of the bourgeoisie entrenched within the old framework of Britain's place in international capitalism. The theoretical espousal of markets in **counter-**position to the state has been the ideological parallel of the line being pursued by the sections of the bourgeoisie that have dominated the transformation: bankers that have constructed a new international banking without frontiers, and multinational corporations that have used internationally free finance together with their control of commodities and plant to re construct their operations on a world-wide basis. These elements of capital do not require absolutely free markets of the kind modelled by the new theories, nor can it dispense with collaboration with national states, but it does require states so dominated by the world market that they are unable to interfere seriously with the international movement of capital. The new ideological economics' demonstration of either the impotence of state policies or their harm is taken up in this context.

The congruence between the theories and the material interests represented by newly dominant sections of capital does not account for the theories, which are in any case long-standing ones. Their significance is as elements in the ideology of the new right, but usually ideological struggles involve structures of ideas and beliefs with a wide or potentially wide social basis, whereas the theories we have identified here are abstract, formal theories promulgated in academic journals and research monographs. What is their significance for ideological struggles?

Although the principal condition of existence for the new Right's policies is the existence of powerful sections of capital seeking to benefit from them, the policies require theorisation and academic justification. Government policies have to be presented, if only ambiguously, as in the national interest instead of sectional ends and theories of the national economy put them in that cast. The new theories of inflation and unemployment for example, enabled inflation to be presented as an overriding evil for all which, by monetarist policies, could be cured without raising unemployment. Moreover, the theorisation had a direct effect on the strata at the centre of state agencies even though it is academic. Civil

servants including economists in the Treasury and Bank of England, whether convinced or not, found in it a rationalisation for government policies which preserved their standing as apparently 'objective' policy advisers. And their own commitment to the theories was increased by bringing the leading academic theorists themselves into the highest positions of power at the centre of the state machinery to create a new hegemonic ideology within state agencies themselves. In Britain, Alan Walters and Professor Brian Griffiths were brought into Downing Street while the monetarist econometrician Terry Burns was brought in to the top of the government economic service. In pursuit of the Reagan administration's international economic policy Professor Anne Krueger was appointed to the World Bank's key policy position heading research. These manoeuvres have not created a monolithic commitment to the new theories within the state machine, but they did sharply shift the balance among its economic professionals; in Britain this shift was marked by the fact that among the 364 academic economists who signed a petition against Thatcher's policies were five *former* economic advisers to the Treasury.'

Creating, or rather restructuring ideological hegemony requires an influence over ideas with a wide currency in addition to the ideology of those within the state. The media do not always appear to build on the academic work of the new ideological economics in reflecting and promulgating shifts of ideology, relying instead on the simpler headline 'verities'—'workers are work-shy', 'unions are bullies', 'nationalised industries are inefficient' and 'black states are corrupt'. Nevertheless, the media have played in this instance an active role in conveying the messages coming from the right wing of the academic spectrum and in some cases have actively helped to develop it. In the early 1970s Peter Jay at *The Times* took a very active role in providing a platform for academic proponents of Milton Friedman's early versions of monetarism such as Professor Harry Johnson of the London School of Economics and Chicago. *The Times* of that period provided the public foundation for the attack on Keynesianism which in 1976, was embraced by Callaghan (Jay's father-in-law) when in power. Subsequently, the *Financial Times'* main economic commentator, Samuel Brittan, who had been converted from an ardent corporatist version of Keynesianism, week by week promoted the ideas of the new Right economic theorists and made his own contribution to the theory of policy. Others in the media have conveyed and popularised the ideas of the theorists, often at several steps removed. But whether just conveying them or actually contributing to their formulation, the media has provided a forum for academic economics and has helped to renew and create tensions in the economic components of the hegemonic ideology, and to shift these components in the direction we have described.

Conclusion

In Britain under Thatcher the new Right's rush to impose the new policies of multinational and financial capital has not generally shown respect for academic standards. The government has continuously doctored economic statistics. The basis of the official monthly unemployment statistics has been changed sixteen times since 1979 to minimise the appearance of unemployment; the Commission on the Distribution of Income and Wealth which had measured inequality was abolished; the General Household Survey's frequency was reduced; and in 1986, after the Department of Health and Social Security (surreptitiously) released data showing the increase in poverty since 1979, it was expected that the government would change the basis of calculation in future. The state has accorded an important role to academic theorists of the new ideological economics, but this certainly does not reflect adherence to high academic standards.

The academic theorists themselves do not work as the servants of particular material interests. From their own perspective, they work within a theoretical discourse which appears as if it has its own dynamic, generating new theories and modifications to old ones to overcome the contradictions in the old. The contributions of the new economic theories in relation to the history of economic thought have been slight; essentially they are modifications of the neo-classical framework laid down at the end of the nineteenth century, even if they enable it to reassert old principles in theoretically more interesting ways. But the old principles themselves are no different from those attributed to the eighteenth century classical economists Adam Smith (the efficiency of markets' invisible hand) and Jean-Baptiste Say (the impossibility of general involuntary unemployment). The patent failure of those theories actually to explain the historical origins and current facts pertaining to the changes and contradictions being experienced in capitalist economies does not reduce their ideological power. The ideological face of academicism and of capitalism are at one.

NOTES

1. A. Walters, *The Economic Adviser's Role: Scope and Limitations* (London: Centre for Policy Studies, 1981). Here we have a confession that the economic adviser to Mrs. Thatcher employs a range of economic principles which is as limited and as biased as is his knowledge of the fish and fowl, uncomplicated, jungle African economy!
2. F. Block, *The Origins of Znternational Economic Disorder* (Berkeley: University of California Press, 1977).
3. For discussion of the New International Division of Labour concept, see F. Frobel, J. Heinricher, and O. Kreye, *The New International Division of Labour* (Cambridge: CUP, 1980); R. Jenkins, 'Divisions over the International Division of Labour', *Capital and Class*, 1984, No. 22, pp. 28-57; D. Elson, 'The New International Division of Labour in the Textile and Garment Industry: How far does the Babbage principle explain it', *International Journal of Sociology and*

Social Policy, 1986; D. Wield, 'Division of Labour or Labour Divided? International Relocation of Industry', in B. Crow, M. Thorpe et. al., *Producers and Production in the Third World*, forthcoming.

4. For an analysis of the weakness of accumulation in Britain see B. Fine and L. Harris, *Peculiarities of the British Economy* (London: Lawrence and Wishart, 1985).
5. 'The one thing clearly not responsible for unemployment is lack of demand.' *Employment: the Challenge for the Nation*, Cmnd 9474 (London: HMSO, 1985), p. 12, para. 5.1. In contrast, it is argued in orthodox circles that 'At no time in the period [since 1972] have symptoms of excess demand been evident in extensive tracts of British industry'. Sir Bryan Hopkin, 'Real Wages and Unemployment: or Have the workers priced themselves out of their jobs?', in Bank of England Panel of Academic Consultants, Panel Paper, No. 24, 1984. 'The Government's Medium Term Financial Strategy aims to set the growth of money demand that is consistent with declining inflation and declining unemployment. Boosting demand without the necessary improvements in the performance of the economy would only generate higher inflation.' *Employment...*, p. 1, para. 1.4.
7. A phrase to rank with that of Marie-Antoinette that the breadless of Paris should eat cake.
8. Although, for Alan Walters, who will figure prominently in what follows, '... since 1970. . . , there has been virtually no fundamental change in the principles that have guided policy discussion in Britain. The most obvious and far-reaching development—the adoption of monetary targets—is largely cosmetic and probably for foreign consumption only', *Economists and the British Economy* (London: IEA, 1978), p. 29. The so-called vertical Phillips curve. The natural rate of unemployment is an intellectual artefact of bourgeois economics to explain why there is unemployment at full employment. It is that level of unemployment that exists because workers move jobs of their own volition or because there are sectoral shifts in the composition of output and so employment for which, for the market economy, it is natural to assume that there will be periods of unemployment as adjustments are made.
10. Or more exactly, to move to the so-called 'natural' level of unemployment at which everybody who wants a job can find one.
11. For a fuller account of the compromise between monetarism and Keynesianism, see B. Fine and A. Murfin, *Macroeconomics and Monopoly Capitalism* (Brighton: Wheatsheaf, 1984).
12. '... and thus that no (systematic) monetary or fiscal policies can produce a permanent effect on the unemployment rate'. The classic statement is to be found in T.J. Sargent, 'Rational Expectations, the Real Rate of Interest and the Natural Rate of Unemployment', in R.E. Lucas and T.J. Sargent (eds.), *Rational Expectations and Econometric Practice* (London: Allen and Unwin, 1981), p. 160.
13. Lucas who, together with Sargent, is seen as the main innovating contributor to NCE, is tipped, for example, for a Nobel Prize in economics. See A. Klammer, *The New Classical Macroeconomics* (Brighton: Harvester, 1984).
14. Sargent, *op. cit.*
15. 'I am persuaded not only that businessmen and housewives are knowledgeable about predicting the future, I am prepared to believe that they are as successful, or unsuccessful, as the economists.' A. Walters, *Economists and the British Economy* (London: IEA, 1978), p. 19. The significant point is not whether this is true or not but that economists should think it important to assert this because it is the sole innovative element in the construction of NCE.

16. See G. **Davies'** pamphlet for the Employment Institute for a readable account of the content and shortcomings of NCE from a Keynesian point of view.
17. So much so that **Friedman** would still be seen as the inspiration behind monetarist policies even though he has been intellectually eclipsed by NCE.
18. Also important has been the new lease of life given to econometrics by rational expectations which allows new statistical techniques to be explored, fully employing the cheaper and more powerful computing facilities which have become available to academics.
19. Sargent, *op. cit.*, mentions surprise policy in the light of a random 'mother-in-law' term to allow for what may be very large deviations from rationality, revealing that anti-sexism is no part of the rational expectations of NCE.
20. Lucas and Sargent, *op. cit.*, p. 317.
21. Sargent, *op. cit.*, p. 208.
22. Klärner, *op. cit.*
23. Cab-drivers are often the subjects of these parables.
24. See P. Minford et. al., *Unemployment: Cause and Cure* (Oxford: Martin Robertson, 1983). It may be noted that 'this book is dedicated to Mrs. Margaret Thatcher who has had the courage to begin tackling the deep-seated **problems** discussed in these pages'.
25. His account of the economy during his term of **office** is to be found in *Britain's Economic Renaissance* (Oxford: Oxford University Press, 1986). The apologetics goes beyond that of Minford for this volume carries a picture of Mrs. Thatcher both on its cover and as its frontispiece; and it claims 'it may be thought that I come "not to judge but to praise" Mrs. Thatcher', p. 184.
26. *Zbid.*, p. 9 and see pp. 176/7 for claimed achievement in productivity **performance**, on which see later.
27. W. Keegan, *Mrs. Thatcher's Economic Experiment* (Harmondsworth: Penguin, 1984), p. 10. Walters is quite happy with Keegan's account of Mrs. Thatcher's rise to power (see *op. cit.*, p. 4) but feels that he has superficially treated the productivity record of the Government.
28. *The Economic Adviser's Role: Scope and Limitations* (London: Centre for Policy Studies, 1981), p. 5.
29. 'I believe that this speech [of Lord Kaldor in 1970] was most influential in confirming the clerisy in the comforting conclusion that monetarists were cranks. The important persons could get on with the really important business of running the economy', *Economists and the British Economy*, p. 22.
30. *Britain's Economic Renaissance*, p. 88.
31. This does not even accord with Walters' own facile methodology, 'Both theories and facts are amoral, and are independent of the motives of the proponent. We ought to judge propositions by their correspondence to the truth and not by the intentions of those who advance them', *Economists. . .*, p. 9.
32. *Monetary Policy*, Third Report from the Treasury and Civil Service Committee, Vol. I, House of Commons, 163-1, 1981, p. xxxiii and xxxiv, respectively.
33. *Britain's Economic Renaissance*, p. 176.
34. *Zbid.*, p. 4.
35. *Ibid.*, p. 39.
36. Chancellor's announcement in Parliament in October, 1984.
37. Review of Treasury Officials, 'The Relationship between Employment and Wages', (London: HM Treasury, January, 1985), p. 36.
38. *Britain's Economic Renaissance*, pp. 17617.
39. P. Bauer and A. Walters, 'The State of Economics', *Journal of Law and Economics*, 1975, p. 9.
40. *Employment: The Challenge. . .*, p. 29.

41. For a discussion of the measures taken in the labour market by Mrs. Thatcher's Government, with a criticism of their effects and supporting ideology, see *The London Labour Plan* (London: GLC, 1985).
42. See *The Fallacy of the Mixed Economy: an Austrian Critique of Economic Thinking and Policy* (London: IEA, 1978), Chapter II. See also *Elements of Telecommunications Economics* (Stevenage: Peter Peregrine, 1979), p. 207, where he refers to 'ideas. . . pioneered by a dozen or so other economists over the last fifteen years'.
43. The major exception is the theory of property rights. This argues that as much of the economy as possible should be privately owned and marketed. This for example, would deal with the environment. 'It does, of course, raise the question whether conservationists will be able to raise sufficient funds to protect the scenery, or persuade taxpayers to do so. If not this will indicate the scenic delights are a minority interest', *The Fallacy of the Mixed Economy. . .*, p. 75. The National Trust is held up as an example of this in practice.
44. *Ibid.*, p. 11. In his policy work, subsequently, Littlechild is more diplomatic and pragmatic about static inefficiencies associated with the neo-classical orthodoxy.
45. *Ibid.*, p. 25. Nevertheless, empirical work is retained because of the unpredictability of behaviour and to 'suggest hitherto unnoticed flaws or omissions or undeveloped propositions in economic theory', p. 26.
46. *Ibid.*, p. 79. Littlechild has also defined monopolies against the charge of inefficiency through the pursuit of monopoly profits in 'The Social Costs of Monopoly Power Revisited', *Economic Journal*, 1981.
47. *Ibid.*, pp. 31/2.
48. 'Controlling the Nationalised Industries', Series B Discussion Paper No. 56, Department of Economics, University of Birmingham, 1979, p. 8.
49. *Regulation of British Telecommunications' Profitability* (London: Department of Industry, 1983) and *Economic Regulation of Privatised Water Authorities* (London: HMSO, Department of Environment, 1986).
50. *Regulation. . .*, p. 7.
51. *Ibid.*
52. Most obviously, even within Littlechild's approach, for an early lifting of any price control.
53. *Economic. . .*, p. 5. It is the height of irony that the discussions of how to regulate denationalised industries—BT charges, for example—are an unwitting replica of the discussion of how enterprises should be regulated in a decentralised, market socialist economy.
54. Their key works are A.O. Krueger, 'The Political Economy of the rent-seeking society', *American Economic Review*, 64, No. 3 (June 1984), pp. 291-303 and R.I. McKinnon, *Money and Capital in Economic Development* (Washington DC: Brookings, 1973).
55. A.O. Krueger, *Liberalization Attempts and Consequences* (Cambridge, Mass.: Ballinger, 1977), p. xvi.
56. A.O. Krueger, *op. cit.*
57. Bagwhati, in A.O. Krueger (ed.), *Trade and Employment in Developing Countries* (Chicago: Chicago University Press, 1982).
58. David C. Colander (ed.), *Neo-Classical Political Economy; the analysis of rent-seeking and DUP activities* (Cambridge Mass.: Ballinger, 1984).
59. A good example is the influential R.H. Bates, *Markets and States in Tropical Africa* (Berkeley: University of California Press, 1981), Appendix A. Bates is less extreme than some, for he is arguing for transforming state intervention to liberate market forces instead of abolishing state action.

60. The classical abstinence theory was strongly attacked by Marx but became the key element in the neo-classical economics that has dominated this century.
61. **McKinnon** advises governments implementing his policies to deter credit **inflows** by a 'technological **fix**' in the markets: a pre-announced crawling devaluation at a rate which has to be carefully calculated in relation to anticipated inflation. It is (unsuccessful) advice to 'clutch at straws' to disguise the true character of the policies which serve international finance.