

REVIEW OF
*NEVER LET A SERIOUS
CRISIS GO TO WASTE*
BY PHILIP MIROWSKI
(Verso, 384 pages)

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I
INTRODUCTION

Philip Mirowski, known for his book *More heat than light — economics as social physics, physics as nature's economics* in which he criticizes neoclassical economics for adopting methods from the natural sciences, recently published a book on neoliberalism and the economic profession during the financial crisis. In *Never Let a Serious Crisis get to Waste* his main thesis is that the economic profession utterly failed in predicting and explaining the financial crisis. Nevertheless mainstream economists did not suffer any negative consequences but continue with business as usual.

In Mirowski's view neoclassical economics, neoliberalism and the political right came out of the crisis stronger thanks to a complicated propaganda efforts and an intricate lobbying machine headed by the Mont Pelerin Society (MPS). According to Mirowski, the Mont Pelerin Society functions at the heart of a complex web of conservative and free market think tanks and neoliberal academics that controls politics.

Mirowski's analysis is interesting even though it comes from a far left and egalitarian perspective. Especially his analysis and critique of neoclassical economics is pertinent. This review essay is structured into three parts. First, I will comment on the issues where Mirowski is right. Second, I will discuss Mirowski's fundamental mistake of not distinguishing clearly between Austrian economics (and libertarianism) and neoclassical economics (and neoliberalism). Lastly, I will respond to some myths and er-

rors on the market economy held by Mirowski and typical for socialists.

II

WHERE MIROWSKI IS CORRECT IN HIS ANALYSIS

1. The lamentable state of the mainstream economic profession

The neoclassical mainstream profession was unable to predict the Great Recession. As neoclassical economists believed in a new age of macroeconomic stability, dubbed the Great Moderation, in which central banks had basically abolished harsh recessions, they were taken by surprise by the immense problems the financial system and the world economy started to experience in 2008.

Mirowski explains this failure as the result of a methodological dead end. The neoclassical profession was unable to predict the Great Recession with their methodological instruments such as the infamous Dynamic Stochastic Equilibrium models (DSGE). As in the DSGE there is basically no room for crises, neoclassical economists were not only unable to predict the financial crisis, they are also unable to explain it in retrospect.

Mirowski diagnoses a cognitive dissonance in the neoclassical camp. As neoclassical theories are unable to explain the financial crisis, there is a gap between the accepted theory and reality. To bridge this gap neoclassicals have, according to Mirowski, reacted in accommodating (or distorting) the empirical evidence to fit their theories somewhat. Instead of recognizing that a paradigmatic change is necessary in mainstream economics, the economic profession stubbornly sticks to their mathematical models.

Mirowski describes accurately the inertia of mainstream orthodoxy. Sunk costs of intellectual capital investments for neoclassical economists are enormous. The profession remains without orientation and vision, stumbles and stagnates in mediocrity. Indoctrination propagates the orthodoxy. Students are socialized with economic textbook using an incoherent potpourri of theories. They are made to read short-lived articles published in highly ranked journals using mainstream methodology. In this context, Mirowski

points to the fact that journals in general have stopped publishing articles on methodology and economic history in favor of mathematical and statistical articles. Mirowski correctly connects the mathematization with the incorporation of natural scientists into economics and regards this development as one reason for the financial crisis.

2. Methodological critique

Mirowski criticizes neoclassical methodology arguing that economists envy the physical sciences. Due to this envy, economists started imitate the method and models of physics. It was the mathematical approach used in physics that made neoclassical economists unable to foresee the crisis. Mirowski's critique does not shy away from leftist neoclassical economists. Consistent in his approach he not only chides Greenspan and Bernanke but also Stiglitz and Krugman. While there may be ideological difference between them, they all employ DSGE models in which a representative agent maximizes utility functions¹. According to Mirowski it was the DSGE model that allowed to unify economics again after microeconomics had been separated from macroeconomics due to the Keynesian revolution. DSGE models allowed employing the mathematical approach of microeconomics in the macrosphere by introducing utility maximizing agents and high aggregation. Mirowski goes so far to say that without DSGE neoclassical economics disappears.

While Mirowski calls for a reset of economics and the end of the neoclassical paradigm, he fails to provide an alternative and does not seem to be aware of the praxeological approach of the Austrian school. The realistic alternative Mirowski calls for already exists. He is also unaware that due to their realistic approach, Austrian economists were not surprised at all by the financial crisis, which was predicted by some of them. Unfortunately, the ignorance of Mirowski concerning the Austrian school is complete as we will see in his interpretation of Hayek and his complete neglect of the

¹ As Mirowski points out all central banks use DSGE models.

works of Ludwig von Mises and Murray Rothbard; not to speak of his neglect of contemporary Austrians.

3. The fateful connection of financial industry and academia

Mirowski is at his best when he describes the connections between the financial industry and academia. He documents that big financial companies hire distinguished mainstream economists, such as Larry Summers, ex-president of Harvard and for some years Chief advisor to Obama. Summers declared in 2009 a net wealth between \$17-39 million dollars. He received \$135,000 dollars for one single speech at a conference from Goldman Sachs besides getting enormous speaking fees from other financial companies.

There are other big shot mainstream economists that received lucrative jobs in the financial industry. Famous neoclassical economist Martin Feldstein belonged to the supervisory board of AIG for twenty years, and was thereby directly involved in their ruinous business model. Even more responsible for the policy decisions of the failed company was Yale economist Gary Gorton who was in charge of the financial models employed by AIG. Andrew Lo, professor of financial economics at MIT, is cited as another example of a neoclassical economist developing quantitative models for the financial industry. Curiously, the reputation of neoclassical economists remained untouched despite their involvement in developing hazardous financial practices based on a flawed theory. Gorton, the main person responsible for the models of failed AIG, even became famous for his account of the «Panic of 2007» and published a book titled *Slapped by the Invisible Hand*.

As shown by Mirowski, parallel to the rise of the financial industry the percentage of economists as a total of University professors rose. Mirowski suggests that academic markets are corrupted. Economists are getting paid for developing theories that support privileges for the financial industry. Unfortunately, the author continuously portrays the financial industry as part of a free market and fails to realize that the sector is not private but semi-public.

Mirowski describes very well the connections between financial industry and academia citing the important work of Lawrence

White that shows that a large part of the publications in monetary economics have been directly or indirectly sponsored by the Federal Reserve (FED). More than 40 percent of monetary economists are employed by the FED. It appears that few orthodox monetary economists did not receive some subsidy from the Fed. In addition, economists that had been employed by the Fed developed the DSGE model. The profession has been financially captured.

Mirowski skillfully shows the institutional links of the mainstream economic profession with the financial sector. Unfortunately, Mirowski is not as systematic in investigating the connection of the economic profession with the government. He does not, for instance, point out Bernanke is an example of an academic getting a job in the public sector, namely as president of the central bank. Mirowski mentions the connection in the case of Summers, but fails to realize that it is the government that creates privileges for the financial industry and that well-paid economists justify these privileges.

After portraying the personal links between neoclassical orthodoxy and financial industry, the inertia of the mainstream, the incentives to maintain a flawed theory as it is, and the resistance against paradigmatic change become plausible. Yet, Mirowski errs in one crucial aspect. He suggests that financial institutions have been successful in buying academics in order to justify a free market order without regulations. Mirowski does not realize that one of the most regulated sectors in the economy is the financial industry. It is mind boggling that Mirowski considers financial markets as the prime example of an unbound free market. He writes that financial markets fail, without realizing that they are much closer to central planning than to free market. Implicit and explicit bailout guarantees, legal privileges such as the legalization of fractional reserve banking, a lender of last resort issuing fiat money make the status of the financial industry rather public than private.

Despite this error in Mirowski's interpretation, the connections between government, financial sector and academia he points out are quite useful. The connections show the common interests between mainstream academia and the government (including the semi-public banking sector); and explain the revolving doors between Goldman Sachs and the Treasury. They also explain the «so-

cialism for the rich», which is correctly criticized by Mirowski when he tells the story of President of the Federal Reserve Bank of New York, William Dudley. Dudley had personal investments in AIG and General Electric while working to bail out these companies with tax payers' money².

Mirowski's main failure in this regard is disregarding the common interests of the government and the financial industry. Both the financial industry and the government profit from theories that justify their existence and defend their privileges such as the mainstream view on fractional reserve banking, on fiat money, on deflation, on monetary policy or on the doctrine that a lender of last resort issuing fiat money is necessary for a stable financial system. Academics are rewarded for these theories with lucrative jobs. The inertia of the erroneous theories justifying interventionism are due to government action, most pertinently due to the government's interventions into the educational system, the media and the monetary system.

4. The unfortunate role of the Kochtopus

In his crusade against the alleged domination of politics by business, Mirowski also names the Koch brothers. The billionaire Koch brothers donate money to support the case for free markets. Somehow, Mirowski seems to feel uneasy with this behavior. But why cannot people use their money to support ideas that they think will lead to a better world? And why would it be somehow better if the government used other peoples money to support ideas in favor of the government? Apparently, Mirowski himself uses his time and resources to write books to advance ideas that he finds worthwhile.

Interestingly, Mirowski is not alone in his critique of the Koch's activities. The strategy employed by the Koch brothers have been

² General Electric was allowed to issue debt under the Temporary Liquidity Guarantee Program. The participation in this Federal Deposit Insurance Corporation's program allowed the company to enjoy a government guarantee backed ultimately by tax payers.

under attack by some Austrian economists as well, which shows that the world is much more complex than Mirowski thinks. Murray Rothbard split with the Koch-financed Cato Institute in particular and the so-called *Kochtopus* in general due to their preferred strategy of gradualism and a betrayal of libertarian principles. The Koch brothers, according to Rothbard, compromised on principles in order to gain political influence³.

III MIROWSKI'S ERRORS

1. The fundamental confusion

The main problem of Mirowski is his confusion when it comes to the Austrian school and libertarianism. Mirowski regards most neoclassical economists as neoliberals (with some exceptions on the left such as Stiglitz or Krugman). Implicitly he also incorporates the Austrian school in the neoliberal camp⁴. He even writes on «Hayekian neoliberals»⁵. Yet, Austrians are neither neoclassical nor can many be considered to be neoliberal⁶.

³ See Gordon (2011).

⁴ For instance, for Mirowski the financial crisis symbolizes a defeat of neoliberal ideology as he regards neoliberal ideology as the cause of the crisis. Thus, he wonders how book sales of Hayek and Rand surged despite this apparent failure of neoliberalism. He thinks that the financial crisis is clear proof that markets do not work. His explanation for this conundrum is that neoliberal propaganda headed by the conspiratorial Mont Pelerin Society does not allow voters to understand that markets are evil. Mirowski fails to see that the financial crisis was caused by interventionism in the financial markets and that Hayek and Rand are critics of interventionism. No wonder that their popularity has increased. Moreover, these authors are not neoclassical economists. There is simply no incongruity, as Mirowski wants us to believe.

⁵ Mirowski at one point acknowledges that anarchocapitalism and neoliberalism are diametrically opposed. Nevertheless, he considers the Mont Pelerin Society to be a neoliberal organization, even though there are a number of members that are anarcho-capitalists or classical liberals.

⁶ Hülsmann (2007, p. 869) argues that Hayek was a neoliberal. Yet, this assessment is debatable (see Huerta de Soto 2012, p. 477). Indeed, «[i]n a 1981 interview during a visit to Chile, Hayek stated unequivocally that he was not a neoliberal and that he was willing to improve upon, but not fundamentally change, the postulates of classical liberalism (*El Mercurio* April 18, 1981).» (Boas and Gans-Morse 2009, fn. 21).

It is true that in some parts of his book Mirowski distinguishes between neoliberal versus libertarian and neoclassical versus Austrian, but he does not apply this distinction consistently. This lack of consistency produces curious results. For instance, he argues that Chicago's Efficient Market Hypothesis (EMH) formalizes Hayek's theory of knowledge. This seems to imply that Hayek, or other Austrians, share the method of neoclassical economists, and belong to one and the same neoliberal camp⁷.

Nothing could be further from the truth. Hayek's theory of subjective knowledge treats knowledge as being tacit, private, subjective and decentralized. Hayek's treatment of subjective knowledge is fundamentally opposed to any mathematical or formalized treatment of information. More specifically, the creative nature of entrepreneurial knowledge in the Austrian tradition contrasts with the objective and given type of information of the EMH⁸.

The EMH states that market prices are efficient as they incorporate all relevant information and assumes an objective kind of information that can be bought and sold on the market place. Yet, what is important is not the objective and given information, but rather the subjective interpretation thereof and the creation of new entrepreneurial knowledge in a dynamic process. Past prices are just historical exchange relationships that serve market participants to create new information. Mirowski distorts Hayek by stating that according to Hayek the market transmits the knowledge of what we need to know. Instead Hayek pointed out that market

It is true that Hayek did not subscribe to Manchesterism or complete Laissez-Faire. Yet, even if we accept Hayek as a neoliberal, there have been and are many other members of the Mont Pelerin Society that adhere to the Austrian school and at the same time remain staunch defenders of classical liberalism (or anarcho-capitalism). At the founding session Mises and Hazlitt fall into this category that Mirowski fatally neglects.

⁷ Reminiscent of Hayek's «Road to Serfdom» that is dedicated to «Socialists of all Parties», Mirowski dedicates his book to «Neoliberals of all Parties.» The analogy does not completely fit. Hayek's socialists of all parties differ in *degrees* in their support of statism. Some parties support more statism than other, but all do. In contrast, there are differences in *class* within Mirowski's category neoliberals, since he includes, at least sometimes, austro-libertarians. Indeed, most «neoliberals» could be considered socialists from an Rothbardian point of view. In contrast, anarcho-capitalist followers of the Austrian school completely oppose any state action.

⁸ For a critique of the EMH from an Austrian perspective see Howden (2009).

prices allow us to use the subjective knowledge of other market participants. The market does not automatically transmit the knowledge that we need to know, rather market participants need to discover and create what they need to achieve their ends.

There are additional problems with Mirowski's mixing of subjectivism and Hayek's theory of knowledge with EMH, CAPM and the Black-Scholes model. There is nothing subjectivist in an equilibrium construct such as the EMH, the CAPM; or Black-Scholes. In all these mathematical models all relevant information is already given. They are static. Mirowski simply misses Hayek's main point that entrepreneurs in a competitive market process discover new information⁹. As the market is a process, the market is never perfect. Market participants may err or fall prey to illusion; Mirowski's whole book is a prime example for that.

Another curious result from Mirowski's failure to distinguish clearly between the Austrian school and neoliberals comes when he deals with constructivism. Mirowski regards neoliberals as constructivist. At the same time Mirowski includes Hayek in the group of neoliberals (and one might wonder the whole Austrian school) and tries to reconcile Hayek's criticism of constructivism with neoliberalism. But how can Hayek, who has fought most vigorously against scientism and constructivism in the 20th century, be a constructivist?

The implicit mixing of the Austrian and Chicago schools is especially fateful. Mirowski claims that neoliberals subscribe to the concept of the spontaneous order. Yet, the spontaneous order is a concept employed mainly by Hayek and other Austrians. In contrast, neoliberals of the Chicago school use the equilibrium construct as an analytical tool. Yet, equilibrium analysis is fundamentally opposed to the Austrian school's analysis the dynamic market process. In short, neoliberals of the Chicago school do not employ the concept of spontaneous order consistently.

Writers such as Mark Skousen (2006) have tried to bridge the Chicago school and the Austrian school. Yet, this endeavor is an impossible undertaking. The main and fundamental difference between the two schools of thought is their methodological approach. Austri-

⁹ See Hayek (1945; 2002).

ans in the Misesian tradition logically derive *a priori* economic laws from the axiom of human action with the help of some general pre-suppositions. Instead of making experiments and looking into the outside world, they look inside using introspection to find truth.

In contrast, Chicago school economists following Milton Friedman (1953) employ a positivist methodology. While Austrians maintain that one needs a theory first in order to understand history, followers of the Chicago school try to derive economic laws from history; sometimes applying econometric analysis. While scholars in the tradition of the Austrian school view reality as a dynamic process of human interaction, Chicago scholars employ equilibrium models, in which entrepreneurship and creativity are absent by definition and the dynamic market process is frozen. While Austrian economists regard the aim of an economist to understand and to explain the laws that govern the dynamic market process, Friedman's aim is to make correct predictions¹⁰. While Austrian economists aim at a realistic explanation of the market process, for Friedman realism of the assumptions is irrelevant. Only the predictive power of a theory counts.

In his book Mirowski criticizes Friedman's approach stating that model building for predictions has been a disastrous failure, an assessment many Austrians would share. Unfortunately, Mirowski fails to mention Austrian methodology in his book and seems to be unaware of this alternative defended by many members of the «neoliberal» MPS.

Directly related to these methodological differences between Vienna and Chicago is the opposed view on competition. While Chicago scholars tend to support and devise anti trust laws in order to bring reality closer to their model of perfect competition, Austrian scholars oppose the intervention of the government into the dynamic market process in the form of anti trust laws¹¹.

The high aggregation required by model building and mathematization has also lead to directly opposed views on capital by

¹⁰ Mirowski's own epistemological stand is unclear. He seems to believe that universal economic laws do not exist. In fact, he states that the political left should emphasize in debates that times have changed (and with it economic laws).

¹¹ See Armentano (1990).

both schools. Capital, which is presented by the letter K in Chicagoite models, is viewed as an homogenous, permanent fund that synchronously and automatically produces income¹². The view of capital as a homogenous fund and production as instantaneous is a direct consequence of the mathematization and formalization of the Chicago school.

The Austrian view on capital is fundamentally opposed to the neoclassical one. Indeed, there was an intense debate between Chicago and Vienna on the concept of capital. Friedrich Hayek (1936) and Fritz Machlup (1935) criticized Frank Knight for the meaningless concept of capital as an homogenous, automatically self-maintaining fund. Austrian capital theory and the view of production as a time consuming process allowed Austrian economists to develop a theory of intertemporal distortions in the structure of production induced by credit expansion unbacked by real savings. Austrian business cycle theory is commonly not understood by the Chicago school as neoclassical economists lack the necessary theoretical instruments; instruments they are unable to develop with their methodological approach.

Consequently, the interpretation of the Great Depression (and the Great Recession) by Austrians and Chicagoites differ widely. The Chicago school, following Milton Friedman and Ana J. Schwartz (1963), maintains that the severity of the Great Depression was due to errors committed by the Federal Reserve. More precisely, the Federal Reserve according to Friedman and Schwartz did not expand the monetary base fast enough during the early 1930s. Following the Chicago interpretation, Ben Bernanke (2002) promised to Milton Friedman not to commit the same mistake again, which explains the Federal Reserve's reaction to the Great Recession in form of Quantitative Easing.

In contrast, Austrian business cycle theory explains the Great Depression by the extraordinary credit expansion of the 1920s¹³. Reinflating the money supply, in the Austrian view, disturbs the necessary readjustment as it stabilizes artificially old malinvestments and stimulates additional ones. Austrians explain the sever-

¹² See Huerta de Soto (2009, pp. 517-18).

¹³ See Rothbard (2000a).

ity of the Great Depression by the size of the credit expansion in the 1920s and the concomitant malinvestments as well as the government interventions introduced in the 1930s such as the Smoot-Hawley Tariff Act or the New Deal in general¹⁴.

Austrian economists were not blinded by the apparent price stability in the early 2000s. In fact, Mises (1949) and Hayek (1925) warned against policies of general price level stabilization hailed by Fisher and other monetarists. In times of economic growth such policies require the continuous injection of new money which is the source of intertemporal distortions. Due to their business cycle theory, Austrians were not taken by surprise by the financial crisis in contrast to Chicago economists. The same is true for the years leading to the Great Recession. Thus, Mirowski is just plain wrong with his sweeping statement that the (whole) economic profession did not foresee the financial crisis. It is true that neoclassical economists due to its methodological approach could not develop the theoretical tools necessary to understand the problems of the ongoing credit expansion of the early 2000s. In contrast, Austrian economists had those tools.

Unsurprisingly, another main area of disagreement between Chicago and Vienna, which Mirowski does not explain, is on monetary policy. Most Austrians favor the abolition of central banks and the introduction of a free market money, such as a 100 percent gold standard¹⁵. Chicago school economists generally do not want to entrust the money supply to the market but are in favor of a central bank issuing fiat money. Central planning in money is not seen as a problem, but as a solution to crisis in the banking sector by defenders of the Chicago school.

¹⁴ See, for instance, Rothbard (2000b). Curiously, Mirowski insinuates that the policy response to the Great Depression was based on Austrian insights, while refutation and interventionism are not exactly Austrian insights. He also maintains that the group that founded the Mont Pelerin Society, i.e. including Mises and Hayek, lost against Keynes, Roosevelt and the market socialists such as Oskar Lange y Jacob Marschak. It is true that Keynesian policy prescriptions were followed by Roosevelt and elsewhere. But it is wrong to suggest that Austrian lost the theoretical debate. For the socialist calculation debate see Huerta de Soto (2010).

¹⁵ See Rothbard (2005) or Huerta de Soto, member of the MPS, (2009) for Austrians defending a 100 percent reserve banking. See Larry White (2009) for an Austrian defender of fractional reserve free banking. Another famous defender of fractional reserve banking, George Selgin (2015), does not consider himself as an Austrian economist any longer.

Mirowski does not touch upon all these fundamental differences. He is correct, when he points to the central bank correctly as a neoliberal institution. Yet, he also claims that the Tea Party in the US is basically a neoliberal group. Later on he states that Ron Paul wants to abolish the Federal Reserve. Mirowski also mentions that Ron Paul is in the tradition of Hayek who is in favor of free banking. However, Ron Paul is regarded to be close to the Tea Party. The reader remains confused. Why would a hero (Ron Paul) of a neoliberal group (Tea Party) want to abolish a neoliberal institution (Federal Reserve)?

We are faced with another apparent contradiction caused by not distinguishing clearly between Austrian and Chicago or neoliberal and libertarian. If Mirowski had explained that Ron Paul is a follower of the Austrian school, it would have been no surprise to the reader that he opposed the Federal Reserve. But Mirowski just states that Bernanke sides with the neoliberal position of Milton Friedman. He simply fails to understand that Chicagoites and Austrians are diametrically opposed on fundamental questions and that it is a fallacy to consider them as ideologically and methodologically close.

2. The origin of Mirowski's confusion

Where does Mirowski's confusion stem from? Why does he not clearly differentiate between the Chicago and the Austrian school?

There are basically three reasons that may have contributed to this confusion.

First, the Austrian school and the Chicago school share many free market ideas. Members of both schools generally oppose price controls, product regulation and the public provision of education services. Yet, as we have pointed out above, differences abound. The Chicago School supports central banking and anti trust, while the Austrian school does not¹⁶. If Mirowski had looked into the libertarian positions many Austrians hold, he would have recog-

¹⁶ See Rothbard (2002). In this article Rothbard attacks Friedman's views from an Austrian perspective.

nized that most Austrians are wide apart from the neoliberal positions of Chicago.

Second, Hayek became a professor in Chicago in 1950. Yet, the location of Hayek at Chicago does not imply that he was close to Chicago ideas. In fact, Hayek became Professor at the Committee of Social Thought in Chicago, because Chicago economists had opposed his appointment at the Economic Department. This is understandable as Hayek was very critical of the positivistic approach that Chicago economists followed.

Third, the most likely cause of confusion stems from Mirowski's treatment of the Mont Pelerin Society where Austrians and Chicagoites are united¹⁷. In the 1947 founding meeting of the Mont Pelerin Society there were three main strands of schools from the very beginning: The Austrian school, Ordoliberalism, and the Chicago School¹⁸. Mises and Hayek from the Austrian School, Walter Eucken and Wilhelm Röpke as a Ordoliberal, and Georg Stigler, Frank Knight and Milton Friedman from Chicago participated in the founding meeting.

Both the Chicago School and the Ordoliberal School can be classified as neoliberal. They oppose socialism, but also Manchesterism, i.e. they oppose the laissez-faire approach of classical liberalism¹⁹. Both Ordoliberals, mainly located in German speaking countries, and the Chicago school favor a strong state to set the framework for the market and direct economic life in certain directions. They also want the state to provide some social security.

There have been tensions from almost the very beginning between Austrians and the neoliberals within the Mont Pelerin Society. As Mises wrote in the 1950s: «I have more and more doubts whether it is possible to cooperate with Ordo-interventionism in the Mont Pelerin Society»²⁰.

¹⁷ Basically, Mirowski regards the MPS as a well organized interest group founded to eliminate the welfare state which in Mirowski's view is essential for the good of society.

¹⁸ Later the public choice school can be considered as a fourth strand.

¹⁹ Even Mirowski acknowledges that neoliberals in general do not believe in laissez-faire. Mirowski goes so far to call the laissez-faire position as «comical.»

²⁰ See Hülsmann (2007, p. 880).

In retrospect and from the point of view of the Austrian school, it may be regarded indeed as a strategic error to found an alliance with the Chicago school and other neoliberals in the *Mont Pelerin Society*. As Austrians and neoliberals are united in the Mont Pelerin Society, authors like Mirowski tend to conflate neoliberalism with libertarianism and Chicago positions with Austrian ones. Instead of treating neoliberals as friends with a common cause, Austrians could have fared better by regarding neoliberals just as enemies of their enemies; namely of full-blown socialism. Austrians could have made their ideological and methodological difference much clearer in a Mont Pelerin Society dominated by them and excluding Chicago and other neoliberals. Most of the attacks from Mirowski against the economic profession *per se* or against liberalism would have lost credibility. He would have had to direct his criticism only against the Chicago school and neoliberals.

3. Some additional errors

Anti capitalist propaganda

Sometimes Mirowski falls into a crude anti-capitalist propaganda. For instance, he regards Facebook as an epitome of evil. People are, somehow, induced by neoliberalism to superficial self-marketing. In the digital age, everything is a market, even the self. Thereby, people lose their true identity. Everything becomes flexible as new skills are acquired according to market needs. For Mirowski, people are forced to construct a flexible neoliberal entrepreneurial identity, which he considers as the end of a true personality.

Suffice to say that no-one forces anyone to use the services supplied by Facebook. Their use is completely voluntary. One might deplore some cultural developments, such as more superficial human relationships, a decline of deep friendship and the family, a lack of time for spiritual and unremunerated activities. Yet, it is not by capitalism but the expansion of the welfare state financed by fiat money that fosters these developments. The welfare state by assuming responsibilities of civil society weakens its traditional ties; namely deep friendship and the family. Fiat money and its

concomitant culture of debt make our life faster, more stressful and less independent. High debts turn the focus on money earning activities.

Moreover, Mirowski forgets that it is free markets and private property that allows for the development of a personality. Private property is akin to an extension of the body and materializes the personality. The writer owns his pen, the soccer player his shoes, the doctor his instruments and the musician his violin. Private property allows us to develop our personality. Without private property no one can develop and enhance his or her personality. Private property gives people the chance to grow and change. Markets offer many opportunities to develop a personality. They allow people to become more flexible and acquire new skills, but it is their voluntary choice.

Mirowski also criticizes that markets satisfy what he considers as strange needs, such as hiring an animator for a child's birthday party, or an adviser who helps to homogenize family expenditures and income, or a nutrition expert.

Many people would regard the possibility of satisfying not only the needs of the majority but also the needs of minorities as a great feature and advantage of the market economy. The market economy does not discriminate against the needs that a majority might find strange. Who is Mirowski to judge the needs of other people if these people do not violate any property rights? And what about Mirowski himself? Is it not strange to write a populist book trying to smash the idea of free and voluntary exchange by putting old anti-capitalist propaganda into new clothes? Is it not really strange that someone advocates the intervention of the government, i.e. the violation of private property rights and then uses the market to sell his book? Thanks to the market individuals may actually buy his book and satisfy their prejudices against liberty.

Offering another fallacy to the reader, Mirowski argues that the market is in the self-interest of only some players that lobby for it, for instance through the Mont Pelerin Society and related institutions. He finds it also absurd to think that no market can ever be coercive and writes that there are losers in the market process. He fails to see that a free market, voluntary exchanges based on private property are by definition in the self-interest of all market

participants as they expect to benefit *ex ante* from such exchanges. A voluntary exchange is a win-win-situation. It is only *ex post* the voluntary exchange that losses may be realized.

Mirowski is also an adherent to the doctrine that marketing manipulates the consumer. For him, it is only an illusion that consumers want a product. This illusion is artificially imposed on consumers by the advertisement campaigns of self-interested companies. Of course, marketing attempts to influence and to convince the consumer to try the product. Sometimes marketing is successful; sometimes it fails to attain the end.

If the consumer tries the product due to promises that the product cannot hold, he will not try it again. The market allows for experimentation. A product that does not satisfy consumer needs at a reasonable price will be pushed out of the market and will not generate the revenues to pay for its advertisement. Therefore, in the long run only good products are advertised. As far as the alleged illusion is concerned, we may always dismiss any person's desires as the outcome of «brainwashing»²¹. But there can never be a proof of it. Why not acknowledge the evidence that people voluntarily inform themselves, experiment and compare products? Why not acknowledge that people are able to resist the influences of marketing? And could we not also claim with at least the same weight that Mirowski's own opinion has been caused by brainwashing, representing an illusion implanted into his head by socialist propaganda and that his whole book is therefore worthless? Finally, is Mirowski not himself manipulating with his suggestive language and anti-capitalist propaganda?

Mirowski regards liberty as democratic participation and the market as an entity that rules the people. For him Hayek and other neoliberals substituted the totalitarianism of the Führer with that of the entrepreneur in a market where there are no true democratic rights. The conceptual distortions committed by Mirowski are almost comical. Liberty is absence of infringements on private property rights. Democratic participation, i.e. voting on the use of property rights of others, is opposed to liberty. The market is no entity

²¹ On the «operationally meaningless» contention of «brainwashing» see Rothbard (2000, p. 162).

that somehow rules the people. Human beings voluntarily interacting and exchanging determine the market's outcome. Entrepreneurs do not impose anything on consumers. They are trying to anticipate the needs future consumers. In a sense, they represent the wishes of future consumers.

4. Three contradictions of neoliberalism

Mirowski claims to have found three contradictions in neoliberalism

First, he argues that the members of the Mont Pelerin Society argue in favor of a liberal society but the MPS itself is a closed and secrete society. It does not admit socialists as members and the debates are closed to the public. It seems that Mirowski fails to understand the concept of private property. Private property allows for exclusion, which is its purpose. In the same way that Mirowski can deny strangers entrance to his house, invite some socialists friends to a dinner party and have a discussion, other people may found a society which has rules they determine voluntarily, discuss ideas in that society and defend these ideas afterwards in the public jointly. There is no contradiction in a society that defends the idea of private property and exercises its private property rights.

Second, Mirowski does not understand how a deliberately created society such as the MPS can at the same time defend the «spontaneous order». Why would such «intervention» into the market (the creation of the society) be necessary, if the market is superior? Here Mirowski fails to see that within the spontaneous order of the market process, there may well be small planned orders such as a specific company or a society. The Mont Pelerin Society is a private organization within the market order that defends liberty and fights interventions of the government into the market. There is no contradiction.

Third, Mirowski claims that the *Mont Pelerin Society* is a society of rationalists that defend ignorance as a virtue. According to Mirowski, Hayek thinks that the market knows best what is good for society and the masses are ignorant. This interpretation of

Hayek is another distortion. Hayek argued that it is impossible to deliberately improve institutions that evolved spontaneously in the market because it is impossible to understand the vast information embodied in these institutions. Mirowski fails to distinguish between practical and theoretical knowledge. The practical knowledge of each market participant cannot be centralized and known to one person that wants to improve upon society. Yet, the theoretical knowledge of the working of the market process is accessible and can be grasped. While one is ignorant of the vast amount of practical knowledge existing in society and cannot improve society by central planning, one can derive and defend the theoretical knowledge of the advantages of the market economy vis-à-vis state intervention. Again Mirowski spots a contradiction where there is none.

Sometimes Mirowski attacks strawmen. For instance, he writes that neoliberals think that «companies do nothing bad.» Here, he distorts both Chicago and Austrian positions. The Chicago school subscribes to Anti-Trust-legislation. Companies may merge and get to a dominant market position and exploit consumers. So the Chicago school thinks that these merged companies do something bad and must be regulated. Austrians and Chicago school economists criticize also corporatism. Companies seek profits by influencing the government, trying to get privileges or public orders.

Mirowski is also confused on the apparent love for the market solution by the Chicago school. He argues that neoliberals propose «market solutions» to market problems in the form of «education vouchers» or CO2 permits. Yet, from the Austrian school perspective education vouchers have nothing to do with market solutions. In a voucher program tax revenues are redistributed and parents may spend the vouchers on eligible schools selected by the government. An analogy would be to increase the income tax and use the receipts to give people «technology vouchers» that people could spend on government approved devices. Apparently, the government first takes money from the people to let them spend it where the government wants it later. A free market is something very different. In a free market, the government does not decide where the income is spent but the people themselves. The same is true for education. A free market provides the education that is demanded

by consumers. To call this a «market problem» because not everyone will receive the education that Mirowski wishes for, is arbitrary and problematic.

Something similar applies to CO₂ permits. As long as there is no violation of private property rights by an identifiable perpetrator, there is no problem. A destruction of private property rights without an identifiable perpetrator, such as destruction by an earthquake, must be considered an act of god or an act of nature. When there is an identifiable perpetrator, the perpetrator can be charged. If he is found guilty he may be forced to stop his activity and pay compensation for the damages incurred. The market, more specifically, the legal system deals with such problems. The government emission of permits is a form of central planning, where the optimal amount of pollution is centrally determined. Similarly, the government could regulate alcohol consumption and then issues alcohol permits that the population is allowed to exchange. It is misleading to call the alcohol permits a «market solution.»

IV CONCLUSION

Even though Mirowski defends untenable claims on the market economy and offers the standard anti-capitalistic propaganda, he offers a justified critique of neoclassical economics. He correctly points out that the financial crisis came as a complete surprise to neoclassical economists and that neoclassical economics is not able to explain the crisis with their standard theoretical tools.

The author also points to the severe methodological deficiencies of the profession and to its denial of failure in forecasting and explaining the crisis. Mirowski attests to an intellectual bankruptcy of the profession and argues in favor of a paradigmatic change in economics. Unfortunately, he does not know or does not mention that such an alternative paradigm, that is realistic and explains the financial crisis, already exist: The Austrian School of economics.

While he mentions several Austrians he fails to separate Austrian economics from neoclassical economics. Neither does he sepa-

rate accurately libertarians and classical liberals from neoliberals. One reason for this failure may be that Austrians and members of the Chicago School, despite their differences, are united in the Mont Pelerin Society. This leads Mirowski to conflate both schools and neglect the minority Austrian position. Under this impression it appears to be a strategical error for the Austrians to create a joined society with the Chicago school.

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