Robert Heilbroner and William Milberg, **The Crisis of Vision in Modern Economic Thought**, Cambridge University Press, New York, 131 pp.
Reviewed by John Langmore MP

For anyone working on economic policy the disarray in macroeconomic theory during the last quarter of a century has been a massive impediment. In exactly the period when economists have had more influence in government and on nations than ever before, there has been remarkably little agreement about what macroeconomic theory has to offer.

To the extent that contemporary theories have been applied, they have been of only modest value at best, and some would argue that they have been counterproductive, noting, for example, the massive waste and damage caused by high and rising unemployment. So a critical appraisal of recent theoretical work linked with some suggestions of a way forward is immediately appealing.

The title of this book suggests that it is another critique from the left of contemporary economic values and prescriptions. Given the calibre of the authors that would be important enough, for Robert Heilbroner in particular is known and admired throughout the economics profession for the quality of his scholarship and analysis and for the fluency, attractiveness and succinctness of his writing.

This is however an even more ambitious and significant book than that. For the authors present nothing less than a review of the nature and causes of the current conflict and unreality of macroeconomic theory and policy in the context of a brief history of thought in the area, and conclude by suggesting a way forward. The book is notable for the breadth of the overview presented, for the knowledge on which the argument is based and the clarity with which it is presented, and for the interest of the suggested intellectual development.

A couple of propositions are central to the book. First, the authors are trenchantly critical of the distance between contemporary theory and the real world – to a degree 'that can be matched only by medieval scholasticism'. This 'socially disembodied study' involves an 'extraordinary combination of arrogance and innocence' which leads to such passivity that, for example, full employment is simply redefined as ever higher levels of unemployment.

A second and related criticism is that current economic theory is treated as an expression of the natural law – revealed universal truth – rather than as a product of the particular social order and period to which it relates: capitalism in the case of 'advanced' industrial countries at the end of the twentieth century.

The authors contrast past 'classical situations' – periods of 'stasis and consolidation marked by widespread agreement' such as the Anglo-American Marshallian ascendancy earlier in the century and the post-war Keynesian consensus (also in English speaking countries) – with the disorder of theory and policy since the early seventies, the extent of which is unprecedented in the history of economic thought.

They cite the normal criticisms which led to the unravelling of Keynesianism: the lack of a coherent theory of inflation in the General Theory – a gap which was initially filled by the Phillips curve; failure to include a concept of stagflation – though in relation to this criticism too it is possible to include modifications, in this case to allow for the increased market power of both labor and corporations; and inadequacies about the way money is handled.

The most important criticism, in the authors' view, is the bifurcation of the analysis into, on the one hand, a Marshallian approach in which the economy is treated as a set of interconnected markets – a summation, later called microeconomics – and, on the other, a dynamic system – the aggregate approach, macroeconomics, which lacked the underpinning of the law-like concept of utility maximisation in microeconomics.

They argue that though the decline in Keynesian economics was aided by its analytical shortcomings, the principal cause was widespread changes in circumstances, ideology and world view. They show that attempts to replace the Keynesian consensus have been unsuccessful.

Monetarism failed because the empirical relations broke down, the over-simplifications of Friedman's policy recommendations – such as an unvarying money supply target – were unconvincing and because of the extremism of his sociopolitical values.

The next theoretical development, the rational expectations approach, is a technique for applying optimisation analysis to the formation of expectations rather than a school of thought, and a tautological technique at that for 'the markets movements could not have occurred had marketeer's expectations-guided actions been other than what they were'.

New Classical economics simply assumes the efficiency of all markets and that individual preferences are formed naturally – outside of the economy – presumptions so far from reality that it is difficult to understand why first year students don't simply laugh any proponent out of the lecture room.

The New Keynesian school explicitly acknowledges that markets do not clear automatically, because of the stickiness of wages and prices. But New Keynesians consider that supply factors are of principal importance, so abandoning the central Keynesian insight that unemployment may be due to inadequate effective demand. They consider there is a quite limited role for policy.

The authors comment that even econometrics is in disrepute as a research tool because of such inadequacies as the difficulty of replication, the problem of calibration and the abuse of data and of significance tests.

Based on this survey Heilbroner and Milberg argue that while there are a number of possible explanations for the failure of any of these or other theoretical departures to take hold, two are of particular importance: the emphasis on economics as a science based on the natural law; and the failure to place economics explicitly in the context of the current capitalist social order.

They identify three of the principal characteristics of capitalism as capital accumulation, market allocation and the dual private and public realms of the system. Conventional economic formulations such as rational choice or diminishing marginal utility have little relevance to the process of accumulation, which has more to do with the goals of power and prestige which motivate all social systems. Understanding how markets work is important but says little about the human origins of those activities. And current theory has little to say about the public sphere.

Heilbroner and Milberg's main point is that the 'divorce between social vision and technical analysis has been the great impediment to the formation of a new theoretical centre'. Their principal recommendation is for recognition of the necessity of 'deepening [the] penetration of public guidance into the workings of capitalism itself'. They consider that it is doubt about the legitimacy of the public sector which is at the core of the contemporary crisis in economic thought.

They argue that 'the vision most likely to form the basis for a new classical situation in economic thought in the advanced nations will presuppose a much more far-reaching application of governmental power, and a much greater recourse to government-sponsored social coordination than was acceptable in the past'. While this does not require giving automatic priority to the public sector as in war, it will involve a striking change in the vision of the roles of the two sectors. For example government expenditures need not always be treated as consumption, capital budgets should be introduced, and some private activity should receive social cost-benefit evaluation.

This proposed vision is described too briefly. The currently conventional justifications for attacking the public sector flood into the mind as the final chapter is read. The authors' refusal to be dragged down into debating them gives elegance to their vision, but leaves for another occasion or other writers a crucial task. They could have strengthened their case by spelling out more fully the value of a more active role for public policy. Their hint about reclassifying public outlays conceals the benefits of expanding education and health services, care for the old and the young, and increased support for the arts and the environment not only for economic development and the quality of social life but also for expanding employment.

Their prescription could also have been made more persuasive and been usefully extended by dealing more fully with the consequences of growing global interdependence. For example, the integration of financial markets reduces the capacity of governments to act intentionally, but the usual response of current theorists – to simply regard this as confirmation of their belief in public passivity – is clearly inadequate.

An alternative response is to recognise global financial integration as a stimulus to greater cooperative international activity. The more interdependent national economies become, the more public goods will have to be provided globally. Expansion of international collaboration in fields as diverse as setting standards for goods and services, of health and safety regulations, and of reduction of financial instability and risk, let alone of cooperation in development and peace and security activity, is inevitable.

In a sense Heilbroner and Milberg are simply arguing for a less doctrinaire economics, which more comprehensively and accurately observes the world and responds to that reality. They are proposing more concern about the failures of our societies, greater breadth about what is included in economic theory and more willingness to take intellectual risks.

To practicing policy makers this can be explained in terms of being more strongly committed to humane *ends* and pragmatic about the *means* for achieving them. Removal of the self-imposed refusal amongst most contemporary economic theorists to recognise the potential role of public policy would indeed enable a start in the development of a new vision of economic thought.