

PARADIGM CHANGE THROUGH AUTHORITY AND ARGUMENTS ABOUT TRUTH

So far in this series, we have encountered a number of answers to my central questions: why hasn't neoliberal economic theory been thrown out as a result of its horrifying failure? Why hasn't the paradigm change theory of Thomas Kuhn's *The Structure of Scientific Revolution* worked? If Kuhn were right, then the utter failure of the neoliberals would lead to its rejection and replacement by a new paradigm.

Most of the people who followed Kuhn pointed to differences between the natural sciences and the social sciences as part of the reason. That led to explanations like the dialectic, in which an idea is met with an antithesis and eventually a synthesis emerges which solves the tension, but it then attracts its own antithesis, and so on. Another possibility is that bad ideas don't ever die. We saw that with Keynes' discussion of the end of the silly ideas of laissez-faire; he points to a number of reasons for its long life.

We might next look at the pendulum idea of intellectual history. There's an excellent example of this in a paper by Ravi Kanbur of Cornell, *The End Of Laissez-Faire, The End Of History, And The Structure Of Scientific Revolutions* I'm going to skip that one, though, because I don't think much of pendulum theories. They don't help us see the forces that drive the swings. Instead, I'll look at this paper by Mark Blyth, *Paradigms and Paradox: The Politics of Economic Ideas in Two Moments of Crisis*. Unfortunately, this excellent paper was published by Wiley, which is trying to screw money out of people, so perhaps you could find it through your library. Here's the abstract.

This article argues that there is a

paradox at the heart of Hall's "Policy Paradigms" framework stemming from the desire to see both state and society as generative of social learning while employing two different logics to explain how such learning takes place: what I term the "Bayesian" and "constructivist" versions of the policy paradigms causal story. This creates a paradox as both logics cannot be simultaneously true. However, it is a generative paradox insofar as the power of the policy paradigms framework emerges, in part, from this attempt to straddle these distinct positions, producing an argument that is greater than the sum of its parts. In the second part of the article, I discuss the recent global financial crisis, an area where we should see third-order change, but we do not. That we do not strengthens the case for the constructivist causal story.

This article starts as a discussion of a paper by Peter Hall on the shift of economic paradigm by the Thatcher government from Keynesian to neoliberal. The "Bayesian" story mentioned in the abstract is the standard version of Kuhn's theory. It says that the normal process of change in institutional governance is cumulative: "an additive function of policy errors that begin with settings, moves to instruments, and then leads to goals as a function of environmental pressures." Suppose a policy and a paradigm are accepted by the institutions of government and the private sector as controlling in a certain area. As things change and evolve, the institutions first change the settings, hiking or lowering interest rates or taxes, for example. Then they add or delete the instruments through which the policy is put into practice, perhaps adding a new tax or a new deduction. Only if these fail do questions about the paradigm itself come to the fore. These are the three orders of change in

this discussion. Paradigm change only comes in the third order.

The alternative is the “constructivist” view. Blyth isn’t as direct in the definition of this idea, but here’s the general idea. The Bayesian view is that there are “transcendent, objective, and empirical standards through which observations of events and other ‘facts’ can be judged.” In the constructivist view, “Truth is a series of intersubjectively held conventions regarding “the way the world works” among a given community at a given moment.” The Bayesian view is probably eventually true in the natural sciences, even if new data or events can be interpreted in several ways under different paradigms that might exist at some point in time. It is much less true in the social sciences. There, different paradigms produce different facts. As an example, Blyth points to the claim of the monetarists (the sheep’s clothing of the neoliberals) that Keynesianism failed in the 1970s in a way that monetarism didn’t. Within the Keynesian paradigm, that wasn’t so, but the monetarists seized control of the narrative, and the bad performance of the economy was taken as evidence of failure of Keynesianism. Blyth says that the key step was the construction of the evidence of the performance of the economy by the monetarists as failure.

Blyth claims that the 70s did not constitute a natural test of Keynesianism, for reasons he discusses in footnote 8 and are beyond my power to assess. I’ll add that the solution of the monetarists was to hike interest rates and hike unemployment to ridiculous levels to stamp out inflation. The result was a catastrophe for the middle class and the working class, and it made life even more miserable for the poor. There was no reason to stomp on workers to end inflation, but there was a determination to protect the interests of the rich. This, I think, is the direct opposite of any policy Keynes would support.

In the constructivist view, then, truth is a matter for contest among the people allowed to participate in the discourse. Blyth quotes Hall:

Politicians, officials, the spokesmen for social interests, and policy experts all operate within the terms of political discourse that are operative within the nation at a given time, and the terms of political discourse generally have a specific configuration that lends representative legitimacy to some social interests more than others . . . and defines the context in which many issues will be understood (Hall 1993, 289).

This analysis focuses our attention on the actual decision-makers, not just the economists themselves, but the group with authority in any given setting to determine the bounds of discourse. Blyth points out that each of the schools of economics, rational expectations theorists, real business cycle theorists, post-Keynesians and Austrians, along with the neoliberals and the outright laissez-faire school of political economics, have explanations for the Great Crash, but they are all incommensurate, totally different paradigms. The argument, the social argument, is over which will dominate the discourse. That is a sociological problem, not a problem of economics.

Blyth uses this framework to analyze the persistence of neoliberal economics. I'll summarize them

1. It takes time to work out a new system.
2. After Kuhn, people expect an all or nothing change. It's quite possible that we have a failure of a paradigm, but no new paradigm to replace it.
3. Economics professors have tenure, and a huge stake in preserving their status.

4. Institutions like the World Bank, the IMF, the European Community Bank and others are slow to change for the same reasons economics professors won't change.

5. The neoliberal consensus had taken such deep root and its adherents were in control of so many institutions that there was no way to get the public involved in demanding change. The few prominent economists calling the neoliberals out had to spread their attacks over such a huge area that there was insufficient firepower.

Blyth concludes:

... the singular lesson of the recent crisis for the policy paradigms model is that the sociological can trump the scientific precisely because the locus [of] authority did not shift despite the facts. Mere facts will (sometimes) not be allowed to get in the way of a good ideology. Being seen to fail, Obama's stimulus, for example, can trump actual failure, such as Eurozone austerity packages. In such a world, the "truth" about the crisis and the ideas that made it possible really does depend upon what the most powerful members of a group (or society) consent to believe.

This explains why nothing changed: the people who define the policy also define the evidence and the tests that might question the policy. But there's more, for another day.