In Search of the Two-Handed Economist: Ideology, Methodology and Marketing in Economics by Craig Freedman

Palgrave Macmillan, London, 2016, xx + 418 pp.: 978-1-137-58973-6

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This volume of previously unpublished essays is a complement to Craig Freedman's earlier volume of essays: *Chicago Fundamentalism: Ideology and Methodology in Economics* (Freedman, 2008). The subject matter overlaps, namely the Chicago School of Economics and its main protagonists, especially George Stigler, with Milton Friedman playing a major supporting role. However, with the current volume, there is no need for the apology Freedman offered in the preface to his earlier collection or previously published papers, 'It is hard to be straight faced when justifying an edited volume of one's own work.' (Freedman, 2008, p. vii) Papers in the current collection have only had public exposure in the classroom or as conference papers, if at all.

A distinguishing feature of the current volume is that several of the essays are far longer than would ever be published in an academic journal, with seven essays occupying slightly over 400 pages compared to 17 essays occupying only 50 additional pages in the earlier volume. The longer format of the essays provides scope for the sort of encompassing treatment normally reserved for books. Indeed one of the essays, The Chicago School of Anti-Monopolistic Competition, is substantially a book in itself, taking up close to 180 pages. Several other essays are around 50 pages in length, with lengthy footnotes providing background, anecdotes, digressions and qualifications. Both in the text and in the footnotes there is a wealth of excerpts from correspondence of the main characters and from conversations that Freedman conducted with Chicago School associates and other leading economists. By adding these embellishments, Freedman provides us with a good story in place of the dry and condensed skeleton that increasingly characterises writing for academic journals.

The first chapter, Elephant Stalkers: Fixed Perspectives and Required Results, is in lieu of an introduction and indicates how some of the following chapters relate to the title and the sub-title. Allusion is made to the joke concerning a policy maker placing an advertisement for a one-armed economist after tiring of hearing advice hedged by, "on the one hand… and on the other hand". Freedman's concern is that economists instead are too often either only right armed or left armed resulting in methods tainted by ideology. Furthermore, the perpetrators are often blissfully unaware of the resulting bias given the lack of self-reflection and methodological training common amongst economists. After adding observations about the pressure for marketing one's ideas to gain recognition and enhance an academic career, Freedman closes the chapter by raising doubts about the efficacy of the marketplace for ideas, which 'remains to some degree terra incognito.' (Freedman, 2016, p. 22).

We are told the second chapter, A Tale of Two Cities: A Priori Assumptions and A Priori Conclusions, comes from 'accumulated notes that resulted from employing two classic, but completely contradictory papers, to serve as vehicles to hone critical reading skills in upper-level industrial organization classes.' (Freedman, 2016, p. xiv). The main protagonists in this chapter are the team of Armen Alchian and Harold Demsetz for the right (Chicago School) and Sam Bowles for the left (Marxism). The question is whether the outcomes of competitive labour markets are "good". Freedman's point is that by choosing their way of framing the question and the set of behavourial and institutional assumptions applied (as well as their own definition of "good"), each side is able to reach its predictable answer to the question. He then worries whether this approach of 'Constructing arguments in reverse, making the appropriate assumptions to reach the desired results' allows 'the marketplace for ideas to adjudicate the optimal resolution of these conflicting visions' or fails 'to cause any serious reconsideration'. (Freedman, 2016, p. 72)

Chapter 3, The Heart is a Lonely Hunter: Chicago's Climb to Glory, details the rise to dominance of the ideology of economic liberalism at Chicago, exemplified in the personages of Milton Friedman (Department of Economics), George Stigler (Business School) and Aaron Director (Law School), and enhanced by the connections between these three and the Mount Pelerin Society and other libertarian forces. Freedman then discusses the role of ideology and marketing in assisting Chicago's climb to glory, emphasising the contest between Chicago and Harvard. Positivistic methodology also plays a role, but as Freedman notes, 'The problem with this commendable Chicago insistence on quantification and empirical work is that facts refuse to speak for themselves. The danger here is that statistical work becomes just another rhetorical tool to push a preconceived conclusion.' (Freedman, 2016, p. 114) The chapter closes noting the contrast between the Chicago School's unshakable attachment to the dogma of economic liberalism and the critical approach that "takes no prisoners" when it comes to any other dogma.

Freedman tells us Chapter 4, Love among the Ruins: Understanding *The Romantic Economist* by Richard Bronk (2009), began as a book review and turned into a meditation. I find the chapter fits uncomfortably with the others in the volume. Bronk's book is cast as an attack on the dominance of the rational choice assumption in economics. Given the rest of the essays in the book, one might expect a positive appraisal. However, Freedman finds many flaws in Bronk's arguments and ends the chapter noting, 'These flaws in Bronk's approach end up, much to my own surprise, leaving me more sympathetic to rational choice theory'. (Freedman, 2016, p. 160) Regardless, more discussion of why attacks on rational choice are rejected by the Chicago School or the mainstream in general would have fit better with the argument that there is at best an imperfect marketplace for ideas in economics.

The *pièce de résistance* of the book is the lengthy (177 pages) Chapter 5, The Chicago School of Anti-Monopolistic Competition: Stigler's Scorched Earth Campaign Against Chamberlin. Here, Freedman most fully develops his argument about the deleterious impact of the interplay of ideology and marketing in economics. He focusses on George Stigler as a key player in the Chicago School and then uses Stigler's attack on Chamberlin's theory of monopolistic competition as a distinct case 'to explore and demonstrate the mode and method of Stigler's critical attacks'. (Freedman, 2016, p. 182)

The depth of Freedman's forensic probe is impressive. For example, he unearths recollections of Stigler's participation in a graduate student discussion group at Chicago in the 1934-35 academic year organised to discuss Chamberlin's then new book (Freedman, 2016, pp. 225-266). There is also an extensive discussion of the relationship between Stigler and Frank Knight, Stigler's PhD supervisor, and its relevance to the differences in their reactions to Chamberlin's work. Freedman (2016, pp. 244-262) attributes Stigler's antagonism to the theory of monopolistic competition to its deviation from the orthodoxy of perfect competition and its lack of practical application, enhanced by a negative review in the *American Economic Review* by Chamberlin (1947) of Stigler's (1946) *Theory of Price*.

It would have been interesting to have Freedman extend the already long chapter to include more recent developments, especially to consider the resurrection of the theory of monopolistic competition from the 1970s onwards through the pioneering work of Spence (1976) and Dixit and Stiglitz (1977). These authors introduce a taste for variety in the utility function of a representative consumer and combine this with Chamberlin's assumptions of firms faced with a lump-sum cost and constant marginal cost for producing each product variety. Market equilibrium with free entry in these analyses mimics that appearing in Chamberlin's original model.

The new theory of monopolistic competition has been applied widely, including providing the foundations of "new trade theory" in which trade expands the market and allows global equilibrium with increased product varieties and reduced product prices in all countries, thereby yielding gains from trade beyond those reaped in classical and previous neoclassical models. Here, we have a counter-reformation against Stigler's counter-reformation, which is so well explained by Freedman. Freedman's only recognition of the counter-counter-reformation appears obliquely in a footnote, where Freedman suggests to Harold Demsetz that Stigler's (1988) reference in his autobiography to monopolistic competition as dead and buried was perhaps premature and Demsetz agrees (Freedman, 2016, fn. 172, p. 325). Further discussion of the implications of the counter-counter-reformation for Freedman's argument about the marketplace for ideas in economics would be interesting along with speculation on how Stigler would have reacted to a resurrection of monopolistic competition theory given that the new theory is based on orthodox axioms of individual maximising behaviour and is also consistent with market efficiency.

The final two chapters of the book are transcripts of interviews with two of George Stigler's closest associates at Chicago, first Gary Becker and then Sam Peltzman. Freedman puts probing questions to them about Stigler's working methods, philosophical views and personality. Some questions are clearly aimed at provoking views of the interviewee on the roles of marketing, methodology and ideology in economics, but there is a clear willingness to follow lines of discussion wherever they may lead. Both conversations are informative and demonstrate that excerpts that appear in earlier chapters are not taken out of context or chosen to purposively distort characterisations of the Chicago School in general or George Stigler in particular.

As a PhD student at Chicago from 1967 to 1971, well inside the period studied by Freedman, I can broadly agree with Freedman's characterisation of the roles of ideology, methodology and marketing in the Chicago School approach. Not all the leading professors at Chicago subscribed to this approach, as acknowledged in Freedman's discussion in Chapter 3 of conflicts within the Economics Department about appointments. During my time, Bob Fogel, Teddy Schultz, Harry Johnson and Bob Mundell spring to mind as exceptions among the senior professors. Nonetheless, students writing theses in the areas of money or industrial organisation faced uphill battles if their research reached conclusions failing to support the Chicago School view. Their cause was completely hopeless if they deviated from the approved methodology of testing hypotheses derived from basic principles of price or monetary theory as accepted by Stigler or Friedman, respectively. My thesis adopted the approved methodology and provided empirical results congenial to the Chicago School, so I had no problem with completing my degree. Nevertheless, I had taken the precaution of avoiding having George Stigler as a supervisor, for reasons that will be quite obvious to those who read Freedman's book.

The Chicago School ideology of economic liberalism is still openly embraced by only a minority of academic economists, but the School's brand of methodological individualism and positive science have had widespread influence. Among other distortions, the insistence on autonomous individual behaviour as the only proper basis of theoretical explanations has led to the outright rejection of any macroeconomics without microfoundations. Likewise, casting predictive power as the only acceptable test of the validity of theories has removed from consideration any theory based on open-system ontology with emergent properties, complexity and path dependency.

Mainstream economics eschews consideration of the logical difficulties of competitive equilibrium, such as the inconsistency between economies of scale and perfect competition as pointed out by Sraffa (1926), and shows little interest in seriously confronting the problems of inequality, unemployment and environmental degradation. More fundamentally, there is an obsession with predicting surface phenomena and a neglect of the deeper forces of development that lie behind the distribution of wealth, macroeconomic instability and structural change. The Chicago School has contributed mightily to this sorry state of affairs, even though the malaise spreads much further and deeper.

Freedman is to be congratulated on shedding light on the mode and method used by a group of economists who have been very influential in shaping the character of the modern mainstream. Although dealing with recent history, this is history of economic thought at its finest, with close attention to both context and content. Conversations are used to full advantage to enhance documentary material, while the potential danger of lacking sufficient distance to achieve objectivity is overcome by Freedman's meticulous devotion to fairness. I highly recommend the book to anyone interested in understanding how mainstream economics has developed its current peculiar tendencies.

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