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Mainstream Economics is a Cult

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Neoclassical Economics Is Based on Myth

Neoclassical economics is a cult which ignores reality in favor of shared myths.

Economics professor Michael Hudson writes:

> [One Nobel prize winning economist stated,] "In pointing out the consequences of a set of abstract assumptions, **one need not be committed unduly as to the relation between reality and these assumptions**."
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> This attitude did not deter him from drawing policy conclusions affecting the material world in which real people live….
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> Typical of this now widespread attitude is the textbook Microeconomics by William Vickery, winner of the 1997 Nobel Economics Prize:
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> > "Economic theory proper, indeed, is nothing more than a system of logical relations between certain sets of assumptions and the conclusions derived from them… **The validity of a theory proper does not depend on the correspondence or lack of it between the assumptions of the theory or its conclusions and observations in the real world**. A theory as an internally consistent system is valid if the conclusions follow logically from its premises, and the fact that neither the premises nor the conclusions correspond to reality may show that the theory is not very useful, but does not invalidate it. In any pure theory, all propositions are essentially tautological, in the sense that the results are implicit in the assumptions made."
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> Such disdain for empirical verification is not found in the physical sciences.

"Our models show there is no chance of water"

Neoclassical economists created the mega-banks, thinking that bigger was better. They pretend that it's better to help the big banks than the people, debt doesn't exist, high levels of leverage are good, artificially low interest rates are fine, bubbles are great, fraud should be covered up, and insolvent institutions propped up.

Indeed, even after a brief period of questioning their myths – after the 2008 economic crisis proved their core assumptions wrong – they have quickly regressed into their old ways.

Economics professor Steve Keen notes:

> **Neoclassical economics has become a religion**. Because it has a mathematical veneer, and I emphasize the word veneer, they actually believe it's true. Once you believe something is true, you're locked into its way of thinking unless there's something that can break in from the outside and destroy that confidence.

Paul Heyne said:

> The arguments of economists legitimate social and economic arrangements by providing these arrangements with quasi-religious justification. **Economists are thus doing theology** while for the most part unaware of that fact.

Economics professor Bill Black told me:

> The amount of fraud that drove the Wall Street bubble and its collapse and caused the Great Depression is contested [keep reading to see what Black means]. The Pecora investigation found widespread manipulation of earnings, conflicts of interest, and insider abuse by the nation's most elite financial leaders. John Kenneth Galbraith's work documented these abuses. **Theoclassical** economic accounts, however, ignore or excuse these abuses.

Black explains:

> [Neoclassical economists believed that] fraud is impossible because securities markets are "efficient" and act as if they were guided by an **"invisible hand."** Markets cannot be efficient if there is accounting control fraud, so we know (on the basis of circular reasoning) that securities fraud cannot exist. Indeed, when [mainstream economists] try to explain why the securities markets automatically exclude frauds their **faith-based logic** becomes even more humorous.

Alex Andrews notes in the Guardian:

> Greenspan's confession [that his assumption that fraud is not a big problem for the economy was totally wrong] was seen by many for precisely what it was: **a crisis of faith**, the faith that unrestricted free markets would always act benevolently. [Note: As we show below, neoclassical economists do not really believe in free markets. As such, they are blind cultists, rather than thinking people of faith.] It revealed what a few had been arguing for some time, that the character of **neoliberal economics is essentially religious**. This is counter-intuitive. Surely the policy of Greenspan and others is based on an understanding of the science of economics, particularly in the mainstream neoclassical form that is most often taught in universities around the world? It is certainly the case that neoclassical economics appears scientific. This is because it deploys huge quantities of complex mathematics, giving it the veneer of being what it has long hoped to be, a kind of social physics.
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> Equations prove free markets work, but only in a sterile world of mathematical abstraction that relies on ridiculous assumptions such as perfectly competitive markets. It is little surprise then that Jean-Philippe Bouchaud, writing in the journal Nature, calls for a "scientific revolution" in economics.
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> **Once economics loses its status as science, its religious aspects become more obvious.** Robert H Nelson has spent his career trying to show that economics is religious in character. Through "the gospel of efficiency" after the second world war, Nelson argues that economists promised progress, a removal of sin, heaven on earth. Economists play the role of priests, defining good and bad behaviours that make this salvation possible.
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> It is clear that this is a **market theodicy**, justifying the ways of the market to men. When neoliberal politicians warn against governments interfering in the market, lest the irrational and temporary will of the electorate interfere with the "spontaneous order" of markets, this now seems like a dire warning that we must not "play God" and attempt to control the mysteries of the market that in our finitude, our "bounded rationality", we cannot properly fathom.

Harpers noted in 2005 that neoclassical economics – underneath it's veneer of math and science – is actually a twisted form of Protestant religion in disguise:

> Economics, as channeled by its popular avatars in media and politics, is the cosmology and the theodicy of our contemporary culture. More than religion itself, more than literature, more than cable television, it is economics that offers the dominant creation narrative of our society, depicting the relation of each of us to the universe we inhabit, the relation of human beings to God. And the story it tells is a marvelous one. In it an enormous multitude of strangers,

all individuals, all striving alone, are nevertheless all bound together in a beautiful and natural pattern of existence: the market. This understanding of markets—not as artifacts of human civilization but as phenomena of nature—now serves as the unquestioned foundation of nearly all political and social debate.

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Economics departments around the world are overwhelmingly populated by economists of one particular stripe. Within the field they are called **“neoclassical” economists**, and their approach to the discipline was developed over the course of the nineteenth century.

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Neoclassical economics tends to downplay the importance of human institutions, seeing instead a system of flows and exchanges that are governed by an inherent equilibrium. Predicated on the belief that markets operate in a scientifically knowable fashion, it sees them as self-regulating mathematical miracles, as delicate ecosystems best left alone.

If there is a whiff of creationism around this idea, it is no accident. By the time the term “economics” first emerged, in the 1870s, **it was evangelical Christianity that had done the most to spur the field on toward its present scientific self-certainty**.

When evangelical Christianity first grew into a powerful movement, between 1800 and 1850, studies of wealth and trade were called “political economy.” The two books at the center of this new learning were Adam Smith’s Wealth of Nations (1776) and David Ricardo’s Principles of Political Economy and Taxation (1817).

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Ricardo concluded that the interests of different groups within an economy—owners, investors, renters, laborers—would always be in conflict with one another. Ricardo’s credibility with the capitalists was unquestionable: he was not a philosopher like Adam Smith but a successful stockbroker who had retired young on his earnings. But his view of capitalism made it seem that a harmonious society was a thing of the past: class conflict was part of the modern world, and the gentle old England of squire and farmer was over.

The group that bridled most against these pessimistic elements of Smith and Ricardo was the evangelicals. These were middle-class reformers who wanted to reshape Protestant doctrine. For them it was unthinkable that capitalism led to class conflict, for that would mean that God had created a world at war with itself. The evangelicals believed in a providential God, one who built a logical and orderly universe, and they saw the new industrial economy as a fulfillment of God’s plan. **The free market, they believed, was a perfectly designed instrument to reward good Christian behavior and to punish and humiliate the unrepentant**.

At the center of this early evangelical doctrine was the idea of original sin: we were all born stained by corruption and fleshly desire, and the true purpose of earthly life was to redeem this. The trials of economic life—the sweat of hard labor, the fear of poverty, the self-denial involved in saving—were earthly tests of sinfulness and virtue. While evangelicals believed salvation was ultimately possible only through conversion and faith, they saw the pain of earthly life as means of atonement for original sin.

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The extreme among them urged mortification of the flesh and would scold anyone who took pleasure in food, drink, or good company. Moreover, they regarded poverty as part of a divine program. Evangelicals interpreted the mental anguish of poverty and debt, and the physical agony of hunger or cold, as natural spurs to prick the conscience of sinners. **They believed that the suffering of the poor would provoke remorse, reflection, and ultimately the conversion that would change their fate. In other words, poor people were poor for a reason, and helping them out of poverty would endanger their mortal souls**. **It was the evangelicals who began to see the business mogul as an heroic figure, his wealth a triumph of righteous will**. The stockbroker, who to Adam Smith had been a suspicious and somewhat twisted character, was for nineteenth-century evangelicals a spiritual victor.

By the 1820s evangelicals were a dominant force in British economic policy.

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Victorian evangelicals took a similar approach to the crisis in Ireland between 1845 and 1850 …the potato famine.

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The phrase “political economy” itself began to connote a cruel disregard for human suffering. And so a generation later, when the next phase of capitalist boosterism emerged, the term “political economy” was simply junked. The new field was called “economics.” What had got the political economists into trouble a generation before was the perception, from a public dominated by Dickens readers, that “political economy” was mostly about politics—about imposing a zealous ideology of the market. Economics was devised, instead, as a science, a field of objective knowledge with iron mathematical laws. Remodeling economics along the lines of physics insulated the new discipline from any charges filed on moral or sentimental grounds. William Stanley Jevons made this case in 1871, comparing the “Theory of Economy” to “the science of Statical Mechanics” (i.e., physics) and arguing that “the Laws of Exchange” in the marketplace “resemble the Laws of Equilibrium.”

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Today we often think of science and religion as standing in opposition, but the “scientific” turn made by Jevons and his fellows only served to enshrine the faith of their evangelical predecessors. The evangelicals believed that the market was a divine system, guided by spiritual laws. The “scientific” economists saw the market as a natural system, a principle of equilibrium produced in the balance of individual souls.

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U.S. policy debate, both in Congress and in the press, proceeds today as if the neoclassical theory of the free market were incontrovertible, endorsed by science and ordained by God. But markets are not spontaneous features of nature; they are creations of human civilization, like, for example, skating rinks.

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The claim that markets are products of higher-order law, products of nature or

> of divine will, simply lends legitimacy to one particularly extreme view of politics and society.

Similarly, Philip Pilkington writes:

> Taken at a very base level, the notion that there is an 'invisible hand' that irons out inconsistencies and increases the efficiency of the production and circulation of goods is basically the same claim that Hegel made about history being moved by a force called Reason. (Indeed, Adam Smith was one of Hegel's references, perhaps even one of his key references). This claim, when made by either Smith or Hegel, can be **traced back in turn to the Protestant tradition** of predestination. The reasoning here is absolutely metaphysical and like the metaphysicians of yore it carries with it a moral lesson to be passed on to disciples.
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> Economists make huge generalisations about the people they study. They assume, for example, a single consumer that consumes the same goods and then projects this onto all consumers.
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> This is pure metaphysical reasoning. The economists concoct an idea in their heads which they then use to construct a theoretical edifice which falls apart when the original idea is shown to be false. They then derive a sort of 'moral code' from this construct which tells people how they should behave. In this case, students are told that this is how people should behave if they are to produce efficiently and effectively.
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> **How is this different from the shaman who makes up a myth about the origins of the tribe** and then derives moral lessons from this myth that he then teaches to the tribes-people? It's not.
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> Economic ideas – such as the myth of the 'single consumer' – serve the function of 'limiting principles' for the way people in our contemporary society are allowed to think about the world. To think outside these 'symbolic boundaries' is not to be taken seriously. And yet, these boundaries are **simply metaphysical constructs built up by economists and then disseminated to the population at large as a type of moral system**.
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> Economics, then, is the totem – its simple moral lessons, the taboos. And this is how we in the modern world organise our thoughts and actions.
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> Adam Smith's 'hidden hand' – is the direct descendent of Protestant predestination.
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> Economics has become, once again, **a metaphysical** doctrine boiled down to a few crass moralisms that are spoon-fed to the educated public.
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> It is really a subtle way of telling people what to do and assuring them that such authority is founded on some sort of Natural or Divine Law.

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In policy circles today economists play the role of the court-priest. They deploy their esoteric and impenetrable 'knowledge' to tell policymakers what they should and should not do. To constrain economists to simply explain how the system works is to give them a role closer to that of the lawyer. The policymaker consults a lawyer to figure out what he or she can or cannot do and then makes a decision from there. Similarly, he or she might consult the economist, if the latter was seen as an operational role rather than as that of a seer.

This would, of course, threaten the role of the economist in society today. One can imagine that it is rather nice to be thought of as a divine, laying down metaphysical principles about the 'inner' workings of the world and deriving from these timeless truths and moral certainties that we mere mortals can then submit to. So, one can also imagine that these preachers and their flocks will respond to such a challenge with moral outrage. It is the outrage of a priest who has been told that his God is an invention, concocted in his mind to be used as leverage over his fellow men.

Neoclassical Economists Do NOT Believe in a Free Market

While many of the above quotes claim that neoclassical economists worship the free market, this is not actually true.

As I've previously noted:

> When Mahatma Gandhi was asked what he thought about Western civilization, he answered:
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> > I think it would be a good idea.
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> I feel the same way about free market capitalism.
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> It would be a good idea, but it is not what we have now. Instead, we have either socialism, fascism or a type of looting.
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> If people want to criticize capitalism and propose an alternative, that is fine . . . but only if they understand what free market capitalism is and acknowledge that America has not practiced free market capitalism for some time.
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> People pointing to the Western economies and saying that capitalism doesn't work is as incorrect as pointing to Stalin's murder of millions of innocent people and blaming it on socialism. Without the government's creation of the too big to fail banks, Fed's intervention in interest rates and the markets, government-created moral hazard emboldening casino-style speculation, corruption of government officials, creation of a system of government-sponsored rating agencies which had at its core a model of bribery, and other government-induced distortions of the free market, things wouldn't have gotten nearly as bad.
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> Being against capitalism because of the mess we've gotten in would be like Gandhi saying that he is against Western civilization because of the way the

British behaved towards India.

And – in the same way that the village shaman was often enlisted to promote and justify the chief's power as being divinely-ordained and unquestionable, many of today's neoclassical economists justify the acts of the ruling political class as being "economically sound", even when such acts are antithetical to free market economics.

Postscript: Just as it is unfair to blame the behavior of a crazy cult leader on religion as a whole, it is improper to blame our broken economic system on free market capitalism. It is the neoclassical economists who have broken our system.

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