“But it is not the popular movement, but the traveling of the minds of men who sit in the seat of Adam Smith that is really serious and worthy of all attention.”

-- Lord Acton
The Distinction

- **Mainline**
  - Invisible Hand
    - Self-interested/rational choice/purposive actors
    - **Methodological individualism**
    - Self-correction within the context of a private property order
    - **Spontaneous Order**

- **Mainstream**
  - Scientific “consensus”
    - Policy implications
The Mainline of Economic Argument

Adam Smith

Jean-Baptiste Say

F. A. Hayek
Mainstream Economics

Adam Smith
John Maynard Keynes
Milton Friedman
Joseph Stiglitz
“Thus, for reasons which I hope to develop, briefly, my interest has of late tended to shift from the problems of economic theory, or what seems to be its proper concerns, to the question of why people so generally, and the learned elite in particular, as they express themselves in various ways, choose nonsense instead of sense and shake the dust from their feet at us. … The serious fact is that the bulk of the really important things that economics has to teach are things that people would see for themselves if they were willing to see. And it is hard to believe in the utility of trying to teach what men refuse to learn or even seriously listen to.”

Main Point

- Scientifically
  - Individual rational choice and focus on incentives vs. either irrational behavior and/or focus on relationship between aggregate variables
  - Mutually beneficial exchange and self-correcting market forces vs. exploitation and/or market failure

- Policy Implications
  - Government as a referee vs. Government as an active player in the economic game
    - Government as a corrective
    - Markets “fail”, use the Market
The Role of the Economist in Public Policy

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Diagram:
- Arrows indicate the dynamics between the roles and states.
“… the primary role of economic theory … is to contribute to an understanding of how by consensus based on rational discussion we can fashion liberal society in which individual freedom is preserved and a satisfactory economic performance achieved.”

-- George Stigler
Why Such Oscillation of Opinion?

- Scientific progress and intellectual blindness
  - Technical holes in the classical system that critics were able to cite to discredit the basic lesson of the system
  - Methodological and Ideological alliance between scienticism and statism
- Conflict between good economics and good politics
  - The plight of the economist in putting parameters on people's utopias
  - The logic of concentrated benefits and dispersed costs
  - The low private costs of holding wrong economic opinions
I’ve stressed this distinction between mainline, and mainstream because my contention is that the intellectual oscillations around the mainline proposition concerning the harmony of interest define the policy ethos of any historical era. The choice is between liberty and power. For much of the 20th century mainstream opinion in economics and political economy deviated considerably from the mainline of political economy. The consequences of this deviation were not trivial. Grand social experiments, with government power substituting for the voluntary choices of individuals with the market process, were undertaken through the world. The most extreme versions led to totalitarianism and economic depravation; the tamer version led to economic stagnation and the "nanny state". Since the 19th century, the intellectual moments when the mainline and the mainstream were aligned have been fleeting.

In my narrative of modern political economy I argue that the 20th and 21st century has seen three critical historical moments when the oscillation around the mainline was particularly volatile. The first was the End of Laissez Faire that described the intellectual discourse between 1900 and 1930. The second was the End of Socialism that defined the period of 1980-1995, when the mainline seemed to push back against the mainstream. The third is the Rise of Leviathan that has emerged since September 11, 2001. To make sense of these historical moments I rely on three propositions. The first proposition is that political and economic ideas can and do have consequences in the world of public policy. In short, we must pay attention to ideas if we want to make sense of the policy choices that are ultimately made. Interest group machinations are always present but they take place within a climate of public opinion that is shaped by ideas. The second proposition is that there must be an alignment of ideas and circumstances for rapid change based on ideas to be manifested in public policy. And the third proposition is that whenever ideas that argue that liberty must give way to power in human affairs become dominant, the consequences are dire to the social progress of humanity. Reliance on power makes us worse off, not better off. And this last proposition brings us back to the core teachings of political economy from Adam Smith to F. A. Hayek. Material progress, social cooperation, and harmony results not from judicious government planning but through the free choices of individuals within a system of private property, freedom of contract and consent.
What is the solution?

- Read in the history of the discipline (continuity and discontinuity in concerns of those in the profession)
- Read in the history of public policy experience (results not intentions)
- Learn and accept humility
  - Both in terms of:
    - What economics can and cannot do
    - What economic policy makers can and cannot do
In its application, therefore, economics is public in a sense that is quite distinct from natural science. And there are profound implications to be drawn from the activity of scientists that stem directly from these differences. Teaching must involve a transmission of the basic principles of the science itself with the objective of placing the students in a potential role as a participant in the ongoing “public choice” process in which the parametric constraints for economic interaction are selected.