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Peter Colander & Craig Freedman, *Where Economics Went Wrong: Chicago's Abandonment of Classical Liberalism*, Princeton University Press, 2019, 267 pp. \$22.99 Hardcover

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Abstract. Classical Economists preserved a firewall between their understanding of social conditions, their role in scientific theories, and policy advocacy. However, contemporary Neoclassical and Welfare economics have abandoned economics objectivity. Colander and Freedman indicate that it is time for the profession to rebuild the firewall between economic analysis and policy recommendations and return economics to its classical roots.

Keywords. Welfare economics, Neoclassical economics, Economics objectivity.

JEL. C92, E20, J00, J01, J08.

I often say that when you can measure what you are speaking about and express it in numbers you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind: it may be the beginning of knowledge, but you have scarcely, in your thoughts, advanced to the stage of science, whatever the matter may be.

William Thomas, Lord Kelvin (1891).

Book review

Economics as a policy prescribing discipline has evolved into a complex apparatus to understand, explain, and make recommendations for how the levers of public policy and administration are manipulated to bring about desired social outcomes. From these methodologies, precision and significance are critical tools that have occupied the attention of scholars and policy advocates for the last 75 years. However, along with mechanical rigor and theory, a group within economics provides a loyal opposition to keep mainstream practitioners grounded. According to David Colander and Craig Freedman, Classical Economic thinking maintained a strict firewall between their economic analysis and policy advocacy. However, to the detriment of both economics and society, current mainstream economics attempts to bridge the gap between economic analysis and policy recommendations. In their book *Where Economics Went Wrong: Chicago's Abandonment of Classical Liberalism*, Colander and Freedman indicate that it is time for the profession to rebuild

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the firewall between economic analysis and policy recommendations and return economics to its classical roots.

Much of the book is about the comparison between Classical Economics versus contemporary Neo-Classical Economics. Classical Economists include several of the founders of economics, such as Adam Smith, David Ricardo, Karl Marx, and John Stuart, who advocated that market economies were self-regulating and governed by natural laws of production and exchange. To Colander and Freedman, the Classical Economists distinguished the extent to which economics was equipped to recommend policy and its value as an advice giving discipline. Beyond the classical tenants of self-interest, exchange, and the role of government, the authors maintain that Classical Economists preserved a firewall between their understanding of social conditions, their role in scientific theories, and policy advocacy. Classical Economists understood the bounds between their assumptions, conclusions, and policy. Moreover, Colander and Freedman maintain that it is Classical Economists who maintain the proper position for economics and policy.

Nonetheless, the Classical School was unable to address subtleties between prices and value theory, such as the water-diamond paradox. Many times, idea generation is localized to an institution, and during the late 19th and early 20th centuries, Cambridge University with Alfred Marshall, Arthur Cecil Pigou, and John Maynard Keynes were at the forefront of the theory over resource allocation. The marginalists stepped in to fill this void to explain that prices are determined by marginal utility. Marshall was among the first to apply marginalist thinking in a systematic way to a subjective theory of value and developed economics into a policy advocating discipline of welfare economics. In a free-trade economy, the question of British free-trade with its emphasis on welfare were among the first ventures where economics was used as a policy recommending discipline, and it was here to Colander and Freedman with modern welfare economics that economics got off track. Gone was the firewall between a discipline devoted to a dispassionate policy evaluating science from a dispassionate discipline. Neoclassical welfare economics was the value-laden discipline used by politicians to support whichever conclusion they desired based on the original model assumptions.

The University of Chicago's economics department is a leading contemporary department that began when John D. Rockefeller and William Rainey Harper set out to establish the University of Chicago as a premier institution of higher education in America's Midwest. James Laughlin was the first Chicago economics department chair, who set out to attract and maintain some of the most prolific economic scholars. Among the first were Jacob Viner and Frank Knight, followed by their students, Milton Friedman, George Stigler, and Aaron Director, who took the department in a decidedly conservative, often identified as Classical Liberal direction. According to Colander and Freedman, the zenith of the separation of Neoclassical from Classical Economics was Friedman's (1953)

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Essays in Positive Economics, which was Friedman's controversial position that a model's assumption need not be realistic to serve as a successful theory; it merely needed to make significant predictions. Positive economics and logical positivism permanently aligned the University of Chicago's economics department with the empirical discipline it has become. It was evidence that mattered, what Lord Kelvin said it is only when you can "measure what you are speaking about and express it in numbers you know something about it."

Friedman's F-twist has, unfortunately, come to be identified as the school of economic thought most identified with measurement. However, the preponderance of modern economic thought and methods are associated with theory and evidence. Colander and Freedman align modern economics with empirical economics. Be it the Cowles Commission or Friedman's F-twist, Chicago Economics is frequently considered as the school of economic thought most aligned with measurement. Such is not the case. Examining leading journals, a preponderance of studies are—at some level—empirical. Science is the interaction of theory and evidence, and if significant amounts of resources are devoted to policy, measurement accuracy is among the most important dimensions of policy. This is not specific to one University, its economics department, or unique group of scholars. Moreover, Frank Knight with Viner—the early founders of the Chicago School—was deeply skeptical toward evidence and measurement, and deep skepticism is a Chicago characteristic. While the history of Chicago leans politically right toward market solutions, its history is one of diversity. A strength of modern economics is its reliance of mathematical theory and measurement. Without them, economics is less precise and loses its logical cohesion and predictive powers.

As a discipline, economics is a broad methodological tent. Among its strengths is its capacity for self-criticism. Throughout their study, Colander and Freedman take an anti-septic, uncritical view themselves of their interpretation of Classical Liberalism and Classical Economics. Contemporary economics has its detractors and those who are critical of its methods. However, Classical Economics and Classical Liberalism were unable to provide a coherent value theory, a theory that is widely considered defunct. So, Classical Liberalism as a cohesive body of thought is not without its blemishes. In defense of contemporary economics, if a policy centered discipline like economics with its emphasis on mathematics and statistics did not exist, would a similar discipline under a different name with the same tools develop? From this perspective, economics has not gotten off track but is evolving to answer the questions it is called upon to address.

David Colander and Craig Freedman have written an important descent to contemporary welfare-based, Neoclassical Economics. They bring attention to the discipline that all is not right with a body of thought that approaches policy prescriptions that assumes the conclusion. While itself

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vulnerable to criticism, *Where Economics went Wrong* is a lively discussion for the value of Neoclassical and Welfare Economics as a policy discipline.

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