

## The Illusion of the Epoch: Neoclassical Economics as a Case Study\*

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*An examination of neoclassical economic theory is undertaken from the vantage point of Marx's theoretical stance termed "the illusion of the epoch", found in his and Friedrich Engels writings collected as The German Ideology. The "Illusion" is a conceptual framework in which the ideas of the dominant economic class are the dominant ideas in society and increasingly present themselves as both abstract and universal. Thus, for example, the term "freedom" in capitalist society is put forth independent of social context but is understood to refer to "bourgeois freedom" as in free markets, free enterprise and so on. In this essay, I evaluate neoclassical theory in terms of its claims to universality, demonstrating the methodological foundation on which such a claim is erected, and show the increasingly abstract, non-social nature of the theory as it develops from its 19<sup>th</sup> century origins through the current period. It is demonstrated that this theoretical approach promotes a perspective in which proper theory is akin to natural law; rests on a hypothetical individual undertaking subjectivist calculation; exists independent of societal relations; is independent of time and place, thus of a universalist nature. Neoclassical theory, that is, is consistent with Marx's "illusion".*

*(J.E.L.: A14; B10; B40)*

In *The German Ideology*, Marx and Engels put forward a proposition regarding the general principle upon which a ruling class rules:

"The ideas of the ruling class are in every epoch the ruling ideas... The class which has the means of material production at its disposal... also controls the means of mental production, so that the ideas of those who lack the means of mental production are on the whole subject to it..The ruling ideas are nothing more than the ideal expression of the dominant material relations, the dominant relations grasped as ideas... The individuals composing the ruling class possess among other things consciousness, and therefore think. Insofar, there-

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fore, as they rule as a class and determine the extent and compass of an historical epoch, it is self-evident that they do this in its whole range, hence among other things rule also as thinkers, as producers of ideas, and regulate the production and distribution of the ideas of their age: thus their ideas are the ruling ideas of the epoch.

This conception of history... will necessarily come up against the phenomenon that ever more abstract ideas hold sway, i.e., ideas which increasingly take on the form of universality. For each new class which puts itself in the place of one ruling before it, is compelled, merely in order to carry through its aim, to present its interest as the common interest of all the members of society, that is, expressed in ideal form: it has to give its ideas the form of universality, and present them as the only rational, universally valid ones". (Marx and Engels 1976: 67-8).

The argument is straightforward: In a minority ruling class society, one based on the expropriation of output produced by a majority class (and, thus, a discordant, fractious society), the dominant class must attempt to convince the producers (serfs, slaves, workers) that the minority's interest are those of the population as a whole. It must attempt to conceal the real foundation of society (or to turn reality upside down), and must present this society as the natural or rational form of organization which, in one form or another, has existed universally. Given control of the principle instruments of communication by those who are politically powerful, the dominant ideas that are produced and disseminated all promote the view that what exists is not only "meek, right, and salutary," but normal. Thus, ideas that develop in a particular social context are inculcated as universal truths. This "illusion of the epoch" (*Ibid.*: 157) is what I have termed elsewhere the "universality principle" (Henry 1990: 123, *passim*).

This illusion has been developed at various times in different places to satisfy the interests and requirements of particular ruling classes given the specific characteristics of the society from which their privileges are developed and maintained. Aristotle's arguments that slavery is natural, that humans are political animals best suited to existence within city-states are early examples of the illusion. Feudal lords or their religious representatives maintained that the (ostensibly) rigid hierarchical structures of their society were God-ordained, thus perfectly natural. In more recent periods, the philosophical arguments surrounding the search for the "absolute" represent, in modern guise, the millennia-old justification for extant society, institutions, mores as universal. All human nature or instinctual theories of behavior, social arrangements, etc., typify the illusion. Anthropological or sociological tracts, while perhaps treating of different social organizations, that set forth the position that what exists is normal are the rule in conventional circles. To cite an earlier critic of such argumentation:

“One of the most disturbing disclosures of the anthropologists who used the comparative method was that primitive man was a communist. Such a conclusion could not be allowed to pass unchallenged. In a recent work, *Man’s Rough Road*, Professor Keller of Yale University has devoted much space and not a little heated eloquence to an endeavor to show that private property and even capitalism have always existed. He is, it is true, compelled to admit that there are many instances, which he terms “exceptional”, where this is difficult to show. But if primitive people attach little importance to private property, it is, he argues, because private property has among them little importance. They would be capitalists if they had capital, and would, he feels sure, speculate in stocks if they had stock exchanges” (Briffault 1969: 171).

Drawing (in the main) on positions developed by those who laid the foundations of conventional theory, I argue here that neoclassical economic theory illustrates one form taken by the illusion of the epoch. The neoclassical claim is: this theoretical formulation stands outside any social order - it is natural; it describes relationships that are consistent with human nature; a (stereotypical) capitalist system conforms to the natural laws embodied in the theory; and all societies conform to these laws regardless of what the external, superficial appearances might be.

It is not difficult to find positions that express this position:

“[Economic theory]... consists of those general laws which are so simple in nature, so deeply grounded in the constitution of man and the outer world, that they remain the same throughout all those ages which are within our consideration” (Jevons 1905: 198).

“It is the purpose of this work to show that the distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth that agent creates... At the point in the economic system where titles to property originate – where labor and capital come into possession of the amounts that the state afterwards treats as their own – the social procedure is true to the principles on which the right of property rests” (Clark 1899: v).

“The generalizations of the theory of value are as applicable to the behaviour of isolated man or the executive authority of a communist society, as to the behaviour of man in an exchange economy—even if they are not so illuminating in such contexts” (Robbins 1952: 20).

“What gives economics its imperialist invasive power is that our analytical categories – scarcity, cost, preferences, opportunities - are truly universal in applicability” (Hirshleifer 1985: 53).

Note that in the above quotes, all economists argue the proposition that (correct) economic laws and the categories that follow from these laws are natural; are independent of time, place, and form of social organization. As Clark intimates, society may be organized in ways that mitigate against these laws being fully operational, but eventually people learn to structure their social forms to accommodate such super-societal rules of behavior. And this structure is consistent with competitive capitalism.

As it is claimed that neoclassical theory is independent of time, place, and form of social organization (and thus, cannot be a form of special pleading), then it is necessary that neoclassicism satisfy certain requirements imposed upon it by this very claim. As it is impossible to show that all social forms are essentially the same, that capitalism is the universe, then to succeed in its ideological program, neoclassicism must give the appearance of examining and explaining the underlying reality of society but in fact conceal that reality, rationalizing the very existence of capitalism itself as a distinct form of organization.

The starting point for this program is the elimination of society, relationships therein, and historical movement thereof. To accomplish this end, neoclassicism chooses as its focal point the relationship, not between individuals or classes, but of the individual to the economic good:

“Instead of regarding the economic system as a gigantic machine for turning out an aggregate product and proceeding to enquire what causes make this product greater or less, and in what proportions this product is divided, we regard it as a series of interdependent but conceptually discrete relationships between men and economic goods”... (Robbins 1952: 68).

“It is not because the life of a Crusoe is of much importance that it has been introduced into economic discussion: it is because the principles by which the economy of an isolated man are directed still guide the economy of a modern state” (Clark 1899: 52).

“I do not see how we can talk sense about economics without considering the economic behavior of an isolated individual. Only in that way can we expect to get rid of abstraction of all the social relationships”... (Knight 1960: 71).

“When English-speaking philosophers think of economics, they usually have a particular kind of pure theory in mind. This is the class of theories... often called neoclassical. Purity here is a matter of conceiving *homo economicus* in abstraction from his social setting and, more excusably, of foreswearing the attempt to make economics part (or all) of a general theory of society” (Hahn and Hollis 1979: 1).

Now, the relationship between an individual and a thing *can* be reduced to an historic constant. The individual act of consumption, for instance, is the same regardless of whether one is serf or slave, nobleman or priest, tribal sachem or Chicago slumlord. All “eat”, and the consumption relationship between the individual and the brussel sprout is independent of social position: all consumers receive some level of satisfaction through the act of consumption itself. And, if we reduce production to the physical act of combining labor with tools and raw materials (the “factor” theory of production), then, again, all societies display uniformity. What is missing from such an approach, of course, is an examination of the underlying social relations that make a person a serf or a lord, a worker or a capitalist. Indeed, given the nature of the argument, all such economic categories disappear: “(T)he individual can be ‘taken for granted’ (Hodgson 1989: 250).

The unifying theory that such a non-social, universal perspective is founded upon is the utility theory of value, an outgrowth of the specifically Benthamite variety of utilitarianism, that of the individualistic “felicific calculus”. This theory of value – for it is a theory of value – forms the central, unifying perspective with which all facets of the environment under scrutiny are then examined and evaluated. Since the utility theory of value bases itself on the subjective relationship between the individual and a thing, then all social relationships – relations among people, classes, etc. – disappear from the purview of the analysis, and all economies then can be viewed as identical in substance (though not necessarily in form). Thus:

“In this work I have attempted to treat Economy as a Calculus of Pleasure and Pain” ...

“(T)he theory here given may be described as the mechanics of utility and self-interest (Jevons 1871: vi; 21)” (Emphasis in original).

Edgeworth, in his *Mathematical Physics* used as a section heading the phrase, “Man a Pleasure Machine” (Edgeworth 1881: 15).

A good summation of the argument relating the subjectivist utility theory of value to the universality principle is found in Hayek’s, *The Counter-Revolution of Science*. Here, in explaining why economics must display the very opposite methodological and theoretical characteristics of natural science, he argues that while societies may *appear* to display non-capitalist relations this is an illusion, for, while the essentially similar capitalist properties may be concealed by the immature development of these economies, the human mind is a constant, and this constancy, based on the subjective relationship between individual and good, contains the basic capitalist orientation:

“The whole idea of the variability of the human mind is a direct result of the erroneous belief that mind is an object which we observe as we observe physical facts. The sole difference between mind and physical objects, however, which entitles us to speak of mind at all, is precisely that wherever we speak of mind we interpret what we observe in terms of categories which we know only because they are the categories in which our own mind operates. There is nothing paradoxical in the claim that all mind must run in terms of certain universal categories of thought... And anything which can be comprehended through our understanding of other minds, anything which we recognize as specifically human, must be comprehensible in terms of these categories” (Hayek 1955: 78).

Now, while one can certainly argue with the above assertion, one cannot quarrel with the statement as illustrative of the neoclassical argument: Though society does not exist, all “men”, thus all economies, are the same. And, as modern “men” display capitalist proclivities – they exchange, they own property, etc. – then all societies are capitalist, even though we may not be able to discern specifically capitalist institutions therein.

Clearly, it is impossible to remain in a Robinson Crusoe world if there is to be any semblance of reasonable analysis of an actual economic organization – a requisite if the illusion is to be successful. While the prevailing methodological standpoint is to begin with the individual, at some point Friday must make his appearance. From the individualist, subjectivist utility standpoint, exchange flows as from its source. Given the importance of exchange in a capitalist society, given that exchange is apparent and engaged in by all, neoclassicism, while driving the analysis as far as it can be driven in a Robinson Crusoe world, must eventually allow the appearance of a “community” (of exchanging individuals). This relationship between the utility theory of value and exchange as the *sine qua non* of orthodoxy was set forth most trenchantly by Bastiat 150 years ago:

“Exchange is political economy. It is society itself, for it is impossible to conceive of society without exchange, or exchange without society”.

“From the viewpoint of political economy, society is exchange. The primary element of exchange is the notion of value, and consequently the connotations that we give to this word... that lead us to truth or error in all our social thinking” (Bastiat 1850: 59; 100).

The examination of exchange necessitates quantification, maximization, and the principle of rationality or the economic principle – the minimizing of something (costs) for a given result, or the maximization of something (profits) for a given outlay (Lange 1974: 160-77). The principle of rationality itself

is a product and reflection of a society in which exchange dominates (or calculation in prices would be impossible), where goods are privately controlled (particularly capital goods or the means of production), and where the individual goal of profit maximization is the central point of the economy. As the economic principle is predicated upon the individual relations between people and goods, and this utility relationship is universal, then, regardless of superficial appearance, all societies must conform to the rational, exchange society that practices the economic principle—or suffer consequences of inefficiency, stagnation, and the like.

The neoclassical economic principle lends itself readily to the axiomatic, deductive line of argumentation that leads almost inexorably to the substitution of mathematics for economic relations of a social nature. Since the purpose of the illusion is to develop permanent, non-social, universal laws of behavior that force themselves on society and to which society must conform (or face dire consequences), the use of a seemingly scientific method which is of a universal nature – the rules of mathematics, once understood, *are* constant for all time and place – provides a convenient rationalization to cover over the vacuity of the argument itself.

Nassau Senior was the first great axiomatic theorist (Senior 1836: 26-50, *passim*), but the general principle of deducing the main argument from a few, non-empirically observable assertions had already become well established in the previous fifty years. The whole of Malthus' *Essay on the Principles of Population* (1798) was developed on this method. George Scrope argued that: "The principles of Political Economy must obviously be deduced from axioms..." (1833: 41).

With the growing use of mathematics since the "marginalist revolution", the approach has become increasingly refined and, thus, increasingly sterile. Indeed, in the form of "praxeological" argumentation (the logic of rational choice), economics has driven itself to its illogical end:

"The transformation of subjectivist economics into a branch of praxiology is the last step in its liquidation as political economy. When changed in this way subjectivist economics ceases to have anything to do with the examination of a definite field of social reality and concerns itself with a particular aspect of behavior common to all rational human activities directed toward the maximization of a given end... economics becomes a universal science covering the most varied fields of human activity... in technology, military strategy and tactics, surgery and medicine, teaching, the art of swimming and horse-riding... Every normal man employs the economic principle when he goes every morning to work taking the shortest route or the quickest tram" (Lange 1963: 247-8).

And with this development, neoclassical economics effectively eliminates

humans from its analysis altogether. “Economics” then becomes simply an examination of rules through which optimization principles can be applied to any issue, regardless of that issue’s seeming irrelevance to matters economic (as pointed out by Lange above). Georgescu-Roegen observed this development some time ago:

“(F)or a science of man to exclude altogether man from the picture is a patent incongruity. Nevertheless, standard economics takes special pride in operating with a man-less picture... The logic is perfect: man is not an economic agent simply because there is no economic process” (Georgescu-Roegen 1966: 104).

For modern (non-Austrian) neoclassicists, mathematical proofs are sufficient (and necessary) to demonstrate the truths of the neoclassical view of the world. And, from the standpoint of the illusion itself, mathematics does have its uses. Clearly, mathematics does develop its logic on a non-social basis; its rules of behavior are independent of time and place; and, if properly undertaken, it does yield “absolute truths”. What tends to get lost in the equation-al manipulation, however, is the reality that the mathematical “proofs” are just that – proofs that the internal logic of the argument is consistent, that the correct assumptions have been made to reach the desired conclusion:

“Mathematics deals exclusively with the relations of concepts to each other without consideration of their relation to experience. Physics too deals with mathematical concepts; however these concepts attain physical content only by the clear determination of their relation to the objects of experience”... (Einstein 1974: 41).

“(A)s far as the propositions of mathematics refer to reality, they are not certain; and as far as they are certain, they do not refer to reality. It seems to me that complete clarity as to this state of things became common property only through that trend in mathematics which is known by the name of “axiomat-ics”. The progress achieved by axiomatics consists in its having neatly separated the logical-formal from its objective or intuitive content”... (Einstein n.d.: 322).

One tends to forget Wicksell’s admonition of Walras:

“It is almost tragic, however, that Walras, who was usually so acute and clear-headed, imagined that he had found the rigorous proof, which he missed in the contemporary defenders of the free trade dogma, merely because he clothed in a mathematical formula the very arguments which he considered insufficient when they were expressed in ordinary language” (Wicksell 1934: 74).

Essentially, the mathematizing of the neoclassical (or any other theory) does not ground that theory on a scientific foundation. What it does do is provide a veneer that makes it more difficult to see what lies beneath.

Recently, Davis (2003) has documented the gradual disappearance of the individual as individual. Modern neoclassical theory, resting on rational choice models developed in the post-World War II period has effectively eliminated humans (however previously vulgarized) from its analysis. In this process of elimination, and in keeping with the positions taken by Georgescu-Roegen and Lange above, the role of mathematics has been of the greatest significance:

“In this regard, economists do not use mathematics as a ready-to-hand tool to work out new solutions to old problems about how individuals interact in markets. Rather, from the point of view of the *mathematical economist* individuals can only be *mathematical* objects and human rationality can only be a *machinery* of choice... (F)rom the point of view of the mathematical economist, since the real world is a Pythagorean one governed by number, real individuals must be abstract individuals understandable in terms of their mathematical properties. By this token, the theory of rational choice is not a normative theory, but rather a descriptive one (*Ibid.*: 89)” (Emphasis in original).

Now, if a mythical capitalist economy is the standard to which all societies conform, then it must be one of equity and harmony:

“*All men’s impulses, when motivated by legitimate self-interest, fall into a harmonious social pattern.* This is the central idea of this work, and its importance cannot be overemphasized (Bastiat 1850: *xxi*)” (Emphasis in original).

The reason why this must be the case may not be obvious. If capitalism is universal and driven by non-social laws, then it must be so ordered as to preclude significant deviations from its central organizing mechanisms or rules of behavior – there must be no reason to change the existing order of things. If there is no such reason to promote change, then the underlying relationships of this universal order must be reasonably compatible with people’s interests (or change would be promoted). This implies that these relationships must exist along harmonious as opposed to discordant lines, for if discord prevailed those who were disadvantaged by the organization would seek to change it. Thus, in some general social sense, capitalism must exhibit harmony and equity rather than discord and inequity, the latter qualities arguing against universality. In other words, the apparent inequalities of capitalism are themselves equitable as they are natural.

Hence, when neoclassicism is faced with obvious discord in the world it is ostensibly deciphering, this cannot be the product of the system but must

lie in error, corruption, and the like:

“Ignorance, rather than fraud, we believe to be the main root of the evil... It is to the ignorance of both governors and governed, as to the just direction of their collective resources, and the true principles of political economy; to the blundering stupidity of power, rather than to its knavery and wickedness, that we must trace the defective arrangements, and consequently imperfect operation of the mechanism of most existing societies” (Scrope 1833: *xiv-xv*).

“We are drifting toward industrial war for lack of mental analysis. Classes in society are at variance over a ratio of division, and have no clear conception of the thing to be divided” (Clark 1887: 35).

The above positions illustrate what has been termed “the Devil’s thesis” the historically perennial argument that, because what exists is normal and salutary, any problems or perceived injustices must be the result of outside forces that inflict themselves on an otherwise perfectly ordered structure. Supply “shocks”, sunspots, etc., all serve as the outside agitator of the moment.

And, as capitalism produces the best of all possible worlds, people should learn to accept and adjust to those problems that remain:

“In general, the particular romantic prejudice of unreasonable expectations causes much needless discontent, and menace to order ... Men need above all to learn to be reasonably satisfied with the possible ... and not (expect) any solution for social problems” (Knight 1960: 10-11).

Before neoclassicism developed its virtual monopoly in the economics industry, when the battle lines between this ideological structure and various contenders were being drawn, theorists were overtly conscious of the necessity to develop a form of the illusion specifically attuned to the needs of a capitalist economic order. Responding to the theoretical issues raised in Ricardo’s chapter “On Machinery”, the agricultural disturbances, early labor movements, the relative success of the so-called “Ricardian Socialists”, and the proto-socialism of Owen and others, the economists of the 1820’s and 30’s were quick to point out the dangers of “false theory” and to specify the need for “correct theory” – one that, if widely disseminated, produced a pacific temperament where the lower orders would accustom themselves to their plight because this was simply in the nature of “the order of things” (Berg 1980; Henry 1990: 127-73).

As two examples of this standard expression of concern, consider George Scrope’s and Mountifort Longfield’s trenchant statements on the prevailing sentiments of the period:

“Opinions are every day assuming greater weight in society. It is daily becoming more important, that the notions which are generally entertained should be correct, since they now lead so directly to action... Opinions, whether true or false, will no longer remain inactive; they both immediately affect legislation, and exercise immense influence on a class of people formerly removed beyond the reach of such discussions, but whose notions and consequent conduct are now of the greatest importance as well to their own comforts as to the peace and prosperity of their country. I allude to the labouring orders... It is no longer a question, whether these men shall think or not, or what degree of influence their opinions ought to exert over their conduct; they will follow the path where they conceive their interests to point, and it only remains to be considered, in what manner a true sense of their real interests may be most effectually brought home to them... The people will no longer be guided by the authority of others...

It depends in some degree upon every person present, whether the labourer is taught that his interest will be best promoted by prudence and industry, or by a violent demolition of the capital destined to his support... the conduct of the labourer will be principally decided by what he conceives to be the cause of his distress, and that again will be much influenced by the pains which each of you, gentlemen, take to learn and disseminate the true doctrines of Political Economy”... (Longfield 1834: 16-19).

“The prevailing want of the present day seems to be want of correct information of the true interests of society. The progress of popular education has already infused a *mind* into masses heretofore but passive instruments in the hands of those who were the exclusive possessors of knowledge. *The people* now read; the people reason; the people think for themselves... By education the people are everywhere acquiring knowledge; and knowledge *is* power... The danger in an inquiring age like the present, when institutions have ceased to be respected because they are established, and venerated because they are ancient... the danger lies in the general ignorance of the public as to the true principles of public welfare, and in the general suspicion that the discordance of existing institutions from these principles is far greater than it really is ...” (Scrope 1833: *viii-ix*, 31) (Emphasis in original).

Observe in the above passages the concern for the seeming collapse of traditional authority (the old illusion), the danger represented by a literate working class that thinks, and the necessity to develop “true” principles that will inculcate the correct mental posture or submission to extant institutions and organization.

These concerns were revived in the 1870-1900 period when, again, capitalist authority was faced with a significant challenge in both the organizational and the ideological senses: Labor organizations were active, the poten-

tial socialist threat was apparently a reality, and religion, perhaps the most important institutional arrangement developed by minority classes, was reeling under the Darwinian attack.

Jevons, Menger, Clark and Walras all demonstrated a keen awareness of the problems posed by these developments, and they understood the need to counter social problems through a massive infusion of argumentation favorably disposed toward prevailing society. (See Henry 1990: 174-237.) Jevons, to illustrate this contention, was quite concerned about the “dangers” posed by labor unions and the need to instill an understanding of correct economic theory in members of the working class from an early age. Children of workers must have “... impress(ed) upon them the simple truths concerning their social position before the business of life has created insuperable prejudices” (Jevons 1886: 4). Failing such an effective educational program, children, when mature workers, will tend toward forming unions, and unions are “evil”:

“The best example which can give... of the evils and disasters which may accompany progress is to be found in trade unions and the strikes they originate and conduct... We wish every working man to be not only free, but privileged; but to this end he must have intelligence and education, else he is not free but in name... He must learn to see that in the trade unions, in which he chiefly places his hopes at present, there is no true individual freedom, but that he is entirely at the mercy of the prevailing opinions of his fellow-workers, often in fact of a few leaders of that union” (*Ibid.*: 10, 12).

Another illustration of the conscious effort to restore the illusion, in modified form, was the establishment of the economics tripos at Cambridge University. Here, in a development led by Marshall and Sedgwick, it was argued that neoclassical economics was a necessary substitute for the religion that workers were no longer heeding (Groenewegen 1988).

It is not difficult to comprehend the political purpose and ramifications of the neoclassical illusion. As the illusion of the epoch in general is designed to demonstrate that what exists is both natural and universal, then the economic order that neoclassicism rationalizes is necessarily both natural and universal.

The first result is that capitalism itself, as a distinct social order, need not come under critical scrutiny: There is simply no reason to evaluate something that is natural and eternal. Capitalism has no beginning, no end, undergoes no process of evolution itself except within its own social form. Indeed, while neoclassicism claims to describe the laws of capitalist society, it cannot claim to analyze capitalism itself.

Institutionalist economists have long protested this aspect of the neoclassical project, but to no avail. Veblen, a hundred years ago (and in a much-

quoted passage), trenchantly captured the essence of the illusion as represented by neoclassical theory:

“The normal economic community... is a business community, which centers around the market, and whose scheme of life is a scheme of profit and loss.

Economics of the line represented at its best by Mr. Clark has never entered this field of cumulative change. It does not approach questions of the class which occupy the modern sciences, – that is to say, questions of genesis, growth, variation, process... – but confines its interest to the definition and classification of a mechanically limited range of phenomena...

They are hedonistically “natural” categories of such taxonomic force that their elemental lines of cleavage run through the facts of any given economic situation... so that, e.g., a gang of Aleutian Islanders slushing about in the wrack and surf with rakes and magical incantations for the capture of shellfish are held, in point of taxonomic reality, to be engaged on a feat of hedonistic equilibration in rent, wages, and interest. And that is all there is to it” (Veblen 1908: 183, 192-3).

Or:

This view of the rather limited possibilities of economic analysis is not one which recommends itself to those who want economics to be a study of the laws of motion of a capitalist society” (Hahn 1973: 39).

The second political aspect of the neoclassical illusion, that follows from the first, is that the argument provides an anti-socialist ideological weapon. Indeed, from the vantage point of the illusion, any infringement on the individual rights of large property holders – such as government involvement and intervention – is seen as anathema. Clearly though, in the modern period, a reasonable alternative to capitalism is socialism. And, regardless of recent events in the Soviet Union, Eastern Europe, etc., socialism continues to generate an appeal to those discomforted by the continued inequalities of capitalism. To the extent that such an alternative exists, it becomes necessary to develop argumentation that demonstrates the impossibility of any but a capitalist order of things.

Indeed, given that capitalism is just, it would seem folly to undertake opposition to such a social formation:

“One need not be cynical in order to anticipate what the application of such a doctrine will be. An eternal order of truth and righteousness is plainly just the ground on which to base existing property relations, if these are what you

want to defend; you can give them in this way a moral and legal justification, no matter how iniquitous they may otherwise appear. By thus identifying them with what is righteous and permanent, you make the opposition seem to be waging a struggle which is wrong and impossible of success” (Dunham 1953: 68).

Dunham’s contention is clearly demonstrated by the so-called “planning debate” of the 1920’s and 1930’s in which all contestants (including those in the “left” opposition) agreed that the only way a socialist order could hope to exist was through the replication of the (universal) laws of the capitalist market. The argument was put most forcefully by von Mises:

“In a socialist community the possibility of economic calculations is lacking: it is therefore ... impossible to find a form of organization which makes the economic action of the individual independent of the co-operation of other citizens without leaving it open to all the risks of mere gambling.

But we need not carry the analysis further. For what are we confronted with but the capitalist order of society – the only form of economy in which strict application of the principle of personal responsibility of every citizen is possible. Capitalism is that form of social economy in which all the deficiencies of the socialist system described above are made good. Capitalism is the only conceivable form of social economy which is appropriate to the fulfillment of the demands which society makes of any economic organization” (von Mises 1922: 186, 194).

More recently, research into the relationship between neoclassical theory and politics has demonstrated the continued close relationship between neoclassical theory and the defense of a capitalist order. Cockett (1994) has (somewhat approvingly) documented the concerted effort led by Hayek, Freidman, Robbins and others (including academics drawn from political science, sociology, etc.) to move the political thrust of modern society away from the interventionist programs associated with Keynes (seen as a form of “creeping socialism”) toward the current neoliberal conservatism ushered in by the Thatcher and Reagan governments of England and the U.S. respectively. This successful program saw the collaboration of academics, business leaders, and politicians in organizing effective opposition to the so-called welfare state apparatus erected after World War II. The ideological program around which their strategy developed was that of 19<sup>th</sup> century liberalism, the center of which was neoclassical economic theory.

S.M. Amadae (2003) places the emergence and domination of rational choice theory, the heart of modern neoclassicism, against the backdrop of the cold war, arguing convincingly that the varieties of this approach (Arrow’s

impossibility theorem, Buchanan's public choice theory, etc.) were developed and promoted to demonstrate the impossibility of rational collectivist decision-making – socialism – and the superiority of individualist calculation – liberal (capitalist) democracy. As in the story told by Cockett, these efforts were supported and promoted by various governmental and private think-tanks (RAND in particular), funding and promoting the work that was then used as a central feature of the cold war ideological apparatus directed against socialism. Hence, the modern versions of the illusion, which spring from the same, non-social, individualist foundation as those of the past, generate the same political or ideological outcomes as those noted above. Given the foundations of this theory and the purpose to which it was originally directed, it cannot be otherwise.

## Conclusion

The illusion of the epoch represents the dominant ideology or set of ideologies through which minority ruling classes attempt to convince the underlying population of the rightness of their rule. It clearly is not limited to capitalist society, but it is capitalism with which we are here concerned. Neoclassical theory is one general argument that illustrates the illusion within this social framework. It would not be appropriate to feudal or slave society because the supposedly natural, universal laws it displays are based on *some* characteristics of capitalism (exchange, private control over factors of production, and the like).

Essentially, the general theory of neoclassicism erects a fictitious capitalist society which then serves as the substitute for that of reality. The mythical capitalism is then held up as the ideal, the standard, to which all real social organizations must tend. Given that the universal laws of capitalist theory operate independent of time and place, all societies, then, regardless of superficial characteristics, are really nascent capitalism.

As economists in the modern period are trained within the prevailing orthodoxy (the illusion), it is difficult, if not impossible, to see neoclassicism as illustrative of Marx's argument. Given that neoclassicism is the theory to which students are subjected, and that this theory conforms to the general ideological framework to which all are subjected, it is extremely hard to escape the confines of the "vision" the theory sets forth. It is only within the context of a broad exposure to the actual development of both capitalism (*real* economic history) and economic theory (*real* history of economic thought) that one becomes able to form a judgment on neoclassicism independent of the strictures of the theory itself – to become able to see it from outside as it were.

If this is achieved, it is then possible to develop a new understanding of the neoclassical argument. Rather than accepting it as "revealed truth", the

neoclassical apparatus is seen as a political statement that is mandated by the nature of a society based on inequality, where the argument itself attempts to present a case that this inequality is not only natural but should be accepted by the “lower orders”. And this is the illusion of the epoch.

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