

# On the Impossibility of Neoliberal Success: A Response to Michael Jacobs

ABBY INNES

## Abstract

In *After Neoliberalism* Michael Jacobs makes a compelling case for the systematic failures of neoliberal economic policies and in the neoclassical theories that justified them. He calls for an economics rooted in ontological institutionalism and for the (re)development of varied institutions charged with diverse social purposes. This response takes Jacobs' critique further and states that neoliberalism fails because the neoclassical economics that underpins it is fundamentally utopian; and it is doomed to fail for the same ontological and epistemological reasons that condemned Soviet socialism. What these politically opposed doctrines hold in common is closed-system economic reasoning from axiomatic deduction presented as 'a governing science'. It follows that both must tend to fail on contact with a three-dimensional reality in an always evolving, open-system world, subject to Knightian uncertainty. The dark historical joke is that a machine models of the economy, both Soviet and neoclassical neoliberal economics, converge on the same statecraft of quantification, output-planning, target-setting, forecasting and the presumption of only 'rational'—socially productive—firms. The result in both systems is state and economic failure and the creation of production regimes that are a grotesque caricature of those promised, only now in the midst of an ecological emergency. It follows that we need an urgent revival of analytical pluralism in government and a non-utopian scientific realism about the true scope of the ecological crisis, so that Jacobs' rich institutional ecosystem will have resilient foundations.

**Keywords:** neoclassical economics, neoliberal policy, Soviet economics, utopia, polycrisis

## Introduction

I AGREED WITH EVERY WORD of Michael Jacobs' *After Neoliberalism*, and so let me take his argument a step further.<sup>1</sup> I think the problem is not just that neoliberalism has failed in the neoclassical terms by which it was justified: it *cannot* work, and for fundamental ontological and epistemological reasons. The 'ontological individualism' Jacobs highlights is only one aspect of the 'organised forgetting' that comes with neoclassical reasoning, and so the issue here is not just that the policies based upon it must produce a rising tide of unanticipated and increasingly negative consequences for economic development. The neoclassical remedies to those unanticipated problems will often only compound them.

With the neoliberal turn, the New Right and then the Blairite left had told us to expect more freedom and higher economic welfare for all, and better government that cost less. What decades of this orthodoxy in Britain have produced instead is the worst potential of markets and states: a financially extractive corporate and financial sector and a hyper-centralised and rigidly bureaucratic state far closer to the mercenary Leviathan of the Thatcherite fever dream than the postwar state ever was. In fact, the late neoliberal state bears some uncanny resemblances to the late Soviet state, for reasons I will try to explain.<sup>2</sup>

## Speaking of Lenin...

Neoliberalism is often framed as the victorious doctrine that triumphed over Soviet communism: as its nemesis and antidote. However,

<sup>1</sup>M. Jacobs, 'After neoliberalism: economic theory and policy in the polycrisis', *The Political Quarterly*, 2024; <https://doi.org/10.1111/1467-923X.13363>

<sup>2</sup>A. Innes, *Late Soviet Britain: Why Materialist Utopias Fail*, Cambridge, Cambridge University Press, 2023.

when we examine how Soviet—specifically Stalinist—economics and neoclassical economics understand the nature of political economic reality, they turn out to be exact mirror images. Why do these orthodoxies have such affinities, despite their distinctive roots in Marxist-Leninist economic sociology and the formal, usually mathematical, and hence fully de-historicised reasoning of neoclassical economics? The dark historical irony is that both, uniquely, are based on closed-system reasoning about the political economy based on ‘axiomatic deduction’, that is, on logical argument from assumptions, rather than on the scientific method understood as ‘hypothetical deduction’, that is, a process of critical observation, theorisation, trial and continuous review. Both Soviet and neoclassical economics are misadventures in high modernism, and what sets them apart from the Western postwar orthodoxies such as Keynesianism is their assertion that there are predetermined laws of the economy that each orthodoxy alone can apprehend. It is precisely because of their mechanistic, closed-system reasoning that both schemes require the operation of a universal and consistent rationality, be that socialist or utilitarian. The individual becomes merely the vehicle for the theoretical analogies at hand.

The ‘critical realist’ perspective in the philosophy of science focusses on how we apprehend reality and what we can reasonably claim to know about it, and it is the focus on ontology and epistemology that I think can teach us why a ‘governing science’ built on closed-system reasoning from utopian assumptions is doomed to prove both politically and economically dysfunctional for societies that are, in fact, evolving, open systems; that is to say, systems inescapably subject to ‘Knightian’ uncertainty.<sup>3</sup> In 1902, Vilfredo Pareto had noticed that, as a matter of mathematical reasoning, the socialist economy operated by an idealised social planner, and the idealised free market, are formally identical.<sup>4</sup> A purely theoretical insight at the time, this

kinship would nevertheless come to haunt first the Soviet, and then neoliberal, economic regimes as they turned their respective ships of state to steer for the *Fata Morgana* of perpetual economic peace.

Where Stalinism forcibly collapsed the sociologically dynamic, long-range political determinism of Leninism into the Escher staircase of comprehensive command planning, neoliberals would transform the two-dimensional blackboard determinism of neoclassical economics into a political determinism so simple and powerful that over time it has all but stripped the Conservative Party of its critical faculties and morality. Both orthodoxies were built on arguments about the universal truths of the political economy that are not just utopian, but tautological—circular—in their reasoning. Their axiomatic assumptions and actions are valid, as distinct from true, by virtue only of their logical formulation, and their end goals are consequently as impossible to realise as they are to refute.

It follows that even the relatively critical, ‘second best world’ neoclassical economics that dominate the professional mainstream is scarcely less predestinarian than the ‘first best world’ reading of markets adopted as Gospel by the New Right. By considering the formal possibilities of imperfect information, missing markets, externalities, collusion, irrational behaviour and so on, second best world neoclassical economists have developed an often insightful body of theory to help us think about what gets forgotten when policy makers assume the behaviour of the first best world: an imaginary of perfectly informed—that is to say, telepathic and time-travelling—agents who operate in only immaculately competitive markets. However, if you accept, as the mainstream does, that the theories of the first best world allow you to derive a toolkit by which to judge how *real* markets fall short of their *theoretical* potential, then their position is not nearly so metaphysically neutral as this supposed ‘realism’ implies.

The neoclassical concepts of market failure have led even the most progressive governments in the Anglosphere and across Europe to fixate on the questions of how apparent

<sup>3</sup>B. Danermark, M. Ekström, L. Jakobsen, J. C. Karlsson and R. Bhaskar, *Explaining Society: Critical Realism in the Social Sciences*, Oxford, Taylor & Francis, 2001, pp. 16–17; T. Lawson, ‘What is this ‘school’ called neoclassical economics?’ *Cambridge Journal of Economics*, vol. 37, no. 5, September 2013, pp. 947–983.

<sup>4</sup>V. Pareto, ‘The application of mathematics to political economy’, *History of Economic Ideas*, vol. 17, no. 1, 2009, pp. 158–179, at p. 178.

market disjunctions at the microeconomic level can be restored on the bases of axiomatic principles. Adopted increasingly wholesale by New Labour, this technocratic world-view would come to crowd out the party's various traditions of critical *political* economy. The second best world-view implies that, through the correction of market failures, you move the real economy closer to the potential equilibrium from which allocative efficiency is conceived: a narrow conception of failure as the mistargeting of given resources that would otherwise be allocated efficiently.<sup>5</sup> In reality—that is to say, in our actual, imperfectible world of epistemological uncertainty and ontological indeterminacy—you can mend as many points of market failure as you like, but beyond the simplest transactions in an isolated and unchanging market, the chances of closing the complete circle of theorised connections is vanishingly remote.

It follows that whereas the first generations of Soviet and neoclassical neoliberal policy makers confronted the problem of how to translate hyper-rationalist and tautological dogmas into institutional procedures, the generations that followed were left to grapple with, and continuously fail to solve, the problem of how to 'restore' the information ostensibly 'lost' in both the resulting planning system *and* its market analogues. It is the nature of materialist utopias based on closed-system reasoning from assumption that even at their most critical they will tend to analytical solipsism—to introversion—so that the methodological tail must wag the analytical dog. It follows that in the meantime, the 'really existing' production regimes so engineered would steadily evolve into grotesque caricatures of the secular Edens that were promised, and in Britain we proceeded to forget, bit by bit, practically everything we had learned in the postwar era about the developmental necessities of investment, innovation and sheer, expansive creativity, trust and cooperation in an economy that is always, in practice, becoming something else.

## Really existing neoliberalism

In an evolving world in which we live and die, there is no Archimedean place where you can

stand to establish how we got here and no crystal ball to determine the choices we'll make next. This is not to say that we know nothing, but that a governing science that is good for all times, conditions and places is an ill-founded conceit. Successive neoliberal governments have nevertheless continued to decant public money and authority to private corporate and financial actors for forty years on the basis that they are the vanguard of the neoliberal revolution. However, those cadres have proceeded to demonstrate almost none of the virtues attributed to them. Indeed, at this point, our levels of financialisation suggest they could scarcely be further from the rational enterprises embarked on only system-consistent productive activity that theory presumed. It is nevertheless in the tautological nature of these ideologies that nonconformity can be accounted for. The revolution remains insufficiently complete, the market failures not yet mended. Persist down that road long enough and you arrive at Britain today, where the political speech of the Conservative Party has become completely unmoored from social reality, where it must remain until Conservatives admit that they have exchanged their historical scepticism for the 'Pill of Murti-Bing'.<sup>6</sup>

Perhaps the darkest historical joke that comes from this Soviet and neoliberal mirroring is that in conceiving of the economy as a closed-system comprehended by a governing science, Stalinist and neoliberal economics converge on the same statecraft: that of quantification, output planning, target-setting, benchmarks and metrics, 'correct' managerial lines, and these presumptions of only productive stewardship from rational enterprises. Why? Because this is the only toolkit that makes sense in a machine-like world. The analytical foundations were thus set, in the British case, for Soviet state failures in capitalist form.

It is these affinities that can help us understand the morphing of Thatcherite neoliberalism into today's corporate neoliberalism that Jacobs underlines. Strip away the market rhetoric of 'customer choice and competitive service provision' that came with public sector outsourcing, for example, and you can see how successive government have transformed the British state into a giant of private enterprise management.

<sup>5</sup>B. Loasby, 'Closed models and open systems', *Journal of Economic Methodology*, vol. 10, no. 3, 2003, pp. 285–306, at p. 291.

<sup>6</sup>C. Milosz, *The Captive Mind*, London, Penguin, 1985, p. 6.

Where the neoclassical models that justified outsourcing and quasi-markets in welfare depicted the state as an abstraction—as a single shot setter of a free market game that would play out somehow autonomously between ‘customers’ and service providers forever after—the only real financial relationship here is between the state agency and the provider, under contract. The only market here is the market for procurement. What neoliberal policy consequently did was to build the Soviet enterprise planning architecture, complete with its pathologies, only now with added profit taking. While neoclassical ‘contract theory’ is insightful in how it can anatomise the problems of ‘asymmetrical’ contracting for services that are hard to quantify, neoclassical theory as such can teach us very little about why the real state is as far from a ‘standard economic agent’ as it is possible to be, because it remains financially, legally and politically liable for the failures of the public services it has attempted to buy. The concept of ‘moral hazard’ can likewise scarcely capture the systemic conflicts of interest and the epic scope of the state failures produced by these co-dependent state-corporate relationships over time. In practice, it is really only Soviet economic history that can explain why the neoliberal state must find itself in continuous bargaining games with public service industry firms that it can almost never win, and how, over time, the functionalist assumption of welfare-enhancing enterprises held by Leninists and neoliberals alike becomes the alibi for massive rent-seeking firms that operate with less and less interest in anyone’s welfare but their own.

When it comes to the wider corporate and financial world, in which ‘other things’ are not, in fact ‘equal’ within a theorised exchange economy, we can likewise learn far too little from neoclassical economics about why the maximisation of shareholder value in general has created not ever-rising investment in the real economy, but maximal financial extraction from it: a dynamic in which large UK corporations continue to ‘eat themselves’.<sup>7</sup> But again, it is the affinities with Soviet expectations of enterprise rationality that helps explain why, even in the face of the most egregious anti-competitive and anti-social corporate behaviour, neoliberal governments and

regulators have only continued with light-touch regulations and corporate self-reporting so performative it would have filled the Soviets with glee.

Pick a neoliberal policy and you can find the Soviet analogy. Jacobs’ critical point about the pricing of climate risks to ‘internalise’ the ‘externality’? The current neoclassical state of the regulatory art in financial markets is the mandatory reporting of climate-related financial risk and the creation of new taxonomies for the standardisation of that reporting. Again, we are in the world of ‘missing information’ in a potentially closed machine of near perfectly coordinated information, so the assumption here is that higher quality public information will allow competing financial actors to converge on the correct pricing of that risk. And to be clear, this is risk to the portfolio of investment, not risk to the biosphere as such. While these measures offer some progress against ‘greenwashing’, what we have here is the ‘semi-strong’ version of the Efficient Markets and Rational Expectations hypotheses that gave us the Global Finance Crisis: the hypotheses that say ‘given good public information, financial markets under total system knowledge (rational expectations) will converge on the correct pricing of risk’—as if past and present information is a statistical mirror of the future—in conditions of accelerating ecological collapse.

The analogy? These theoretical arguments are an exact market analogue to the abandoned Soviet experiments in cybernetics and optimal planning. In the 1960s the Soviets had experimented with the computational possibilities of ‘perfect indirect centralisation’, in which the ‘cycle’ of the entire economy might be expressed mathematically so that the disaggregated behaviour of all economic agents operates as a perfect expression of what the centre would do if it were an omniscient planner, just without a central planning hierarchy that would have to manage all the information.<sup>8</sup> Think Baron Von Munchausen, pulling himself out of the epistemological swamp by his own hair. The only difference here is that the rationality rituals of forecasting and measurement in today’s financial markets

<sup>7</sup>F. Giugliano, ‘BofE’s Haldane says corporations putting shareholders ahead of wider economy’, *Financial Times*, 25 July 2015.

<sup>8</sup>M. Swann, ‘On the theory of optimal planning in the Soviet Union’, *Australian Economic Papers*, vol. 14, no. 24, June 1975, pp. 41–56, at pp. 43–45.

are disaggregated to private market actors, whether in the attempts of active investment funds to gauge the long-term viability of individual firms aided by benchmarking and indices, or in the complex modelling of climate impact scenarios in the insurance sector.<sup>9</sup> With the addition of further climate change variables those models of risk-pricing around assets have certainly become more complex, but not more accurate in terms that can realistically reflect the real geophysical dynamics at hand, which are unprecedented. Or to be precise, the total failure of financial markets to converge on the correct pricing of climate-related financial risks is something that we will only know after the fact of their total failure.

## Organised forgetting in the governing science

In sum: the problem of ontological individualism is only the first of many assumptions that leads, as Philip Mirowski put it, to ‘more heat than light’ in the economics that continue to dominate UK policy making.<sup>10</sup> Rooted as it is in formal, often mathematical reasoning, neo-classical economics also gives us two dimensional analyses based in logical time for a three-dimensional world that operates in historical time. It gives us closed-system reasoning in a steady-state biosphere for an open-system world in an ecological emergency; it gives us a governing toolkit that, even at its most critical, cannot begin to imagine, hence describe, hence remedy the emergent, real institutional dynamics of a capitalism that bears little or no resemblance to the markets predicted in theory. So yes, I agree with Jacobs wholeheartedly. To the polycrisis we must add the crisis in the mainstream economic analysis that cannot begin to manage it, and not least because it cannot conceive of it.

At the most basic political level in Britain, a transition away from neoliberalism, like that

from Soviet communism, will have to grapple with the fact that the ‘governing science’ has become an excuse for a concerted corporate state capture for which, in our case, the Conservative Party, has become the protection racket: a syndrome now continuously reinforced by the ideology’s core economic principles. The deeper crisis is arguably one of ontology and epistemology: the crisis of what policy makers and corporate leaders almost across the board conceive to be the nature of economic reality and what they believe they know about it. The neoclassical methodologies of neoliberalism are today embedded in more or less crude form in practically every British institution across the public and the private sector, and the boundaries between those sectors are now thoroughly blurred. Decades of managerial techniques and bureaucratic methodologies, based on quantification and deterministic analyses, have created the illusion of certainties that on closer inspection are often demonstrably unsafe and unsound, and more obviously theological than scientific. They are also, at this point, almost entirely ecologically myopic.

Michael Jacobs is surely right to call for ‘institutional pluralism’, and so to this I would only add a call for an open-minded analytical pluralism to go with it. Innovation as such is something that neoclassical economics must struggle to explain, but as David Stark pointed out in his work on innovative firms, their entrepreneurialism was rarely, in fact, the property of individual leaders, but an institutional, organised capacity to sustain different definitions of economic worth and social purpose within their operations. It was this ‘heterarchy’ that allowed them to produce continuously adaptive solutions for emerging challenges in inescapably uncertain conditions.<sup>11</sup> Our present has no precedent, and as Stark put it, there is ‘sense in dissonance’, and perhaps never more so when one is attempting to escape an economic paradigm that is a catastrophic failure.

The beauty of the moment is that a reforming government could do so much simply by remembering that it governs a population that is three-dimensionally human: that is to say,

<sup>9</sup>M. Ellman, *Socialist Planning*, Cambridge, Cambridge University Press, 1989, p. 49; S. Bracking, ‘Financialisation, climate finance, and the calculative challenges of managing environmental change’, *Antipode*, vol. 5, no. 3, 2019, pp. 701–729, p. 711.

<sup>10</sup>P. Morowski, *More Heat than Light: Economics as Social Physics, Physics as Nature’s Economics*, Cambridge, Cambridge University Press, 1989.

<sup>11</sup>D. Stark, *The Sense of Dissonance: Accounts of Worth in Economic Life*, Princeton NJ, Princeton University Press, 2009.

kind, vulnerable, generous and fallible. It could remember that investment is not the same as expense. It could rescind the Friedmanite dogma that firms should carry no social responsibilities but profit-maximisation, and no natural economic laws will be broken—because such economic laws do not in fact exist. A reformist government that understood the difference between normative political philosophy dressed up as science and *actual* science, based on hypothetical-deduction, could deploy ecological economists, environmental and materials scientists and energy experts in senior policy making positions in every government department, and—here's a wild thought—in the boards of firms, banks and regulators, so they could work *with* the incumbents in reimagining how we get from our ecologically kamikaze institutional dynamics of today to a social and economic landscape in which both people and the environment can thrive. We could consider the very real possibility that the human economy is much more like a garden than a watch, and that we are natural creatures in that garden, not cogs in a machine.

Does all this sound outlandish? Of course it does, but I ask you, outlandish compared to what, exactly? As we live our once gradually, but now rapidly unspooling, days of the failing neoliberal utopia, we have all but forgotten what 'realism' means. We must recall it fast, as the planet burns and ecosystems die. I think the bottom line is Herman Daly's, which is that the economy is a wholly owned subsidiary of nature. On the upside, he also said that 'social purpose is independently causative in the world'.<sup>12</sup> And so the next question becomes this: can we admit the metaphysical horrors, the tragic fiascos, the dehumanising instrumentalism of Soviet and neoliberal economics and let go of our high-modernist delusions? My own fantasy is that we might return to some socially purposeful, low, creative, cooperative British problem solving. We have had moments in our history of being really quite good at that.

*Abby Innes* is Associate Professor of Political Economy at the European Institute, London School of Economics.

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<sup>12</sup>H. Daly, 'Growthism: its ecological, economic and ethical limits', *Real World Economics Review*, no. 97, 2019.