

The End of Welfare Economics As We Know It: A Review Essay

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The legitimacy crisis of the new international economics has opened a new, atheoretical era in mainstream economics. This new generation of research has strengths and weaknesses: it asks practical questions (appropriate for policy), but it has left a theoretical void (especially concerning social welfare). Neoliberalism has rushed through the open door. One of the great contributions of George DeMartino's Global Economy, Global Justice is to make explicit the normative principles underlying neoliberalism, to explore alternative normative principles, and to pose the question, "what makes for a good economic outcome?"

Key Words: Social Welfare, Justice, Globalization

The Enduring Appeal of Neoliberalism

"Practical men," wrote Keynes in the final paragraph of *The General Theory*, "who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back" (Keynes 1964, 383). Today's defunct economists are the Pareto-optimizing, general equilibrium theorists of the middle part of the twentieth century. Their work has been eclipsed by at least two new generations of mainstream economists, yet their insights and political perspective on the beneficence of the free market continues to hold sway in most policy circles.¹ Neoliberalism continues to have enormous appeal because of its political conservatism, its intellectual simplicity and power, and the lack of a clear alternative. While the question "what makes for a good economic outcome?" will never go away, "welfare economics" has vaporized in a cloud of multiple equilibria, representative agents, game theory, and increasing-returns-to-scale production functions. Since the recent generations of neoclassical economists have been unable—and, in their moments of regret, unwilling—to dethrone welfarism in policy circles, the important task has been taken up by an antiessenti-

1. Ironically, the same could be said of Keynesianism itself, which, although unseated from its intellectual throne over twenty-five years ago, continues to hold sway in most macroeconomics policy circles.