Goldthorpe & Lucas: Sociology and economics in the diagnosis of 1970s inflation

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In light of the deflationary situation which Europe is currently sliding into, it seems more urgent than ever to address the question of the political economy of inflation. And what seems particularly important is to address the experience of the 1970s, which continues to frame our present.

The question of calculation is central to any thinking about the economics of inflation. When economists try to spell out why inflation is a problem they end up talking about problems of arithmetic. The problem with inflation is that it forces more people to do more math and percentages in particular. If an entire economy constantly has to adjust the prices on which it calculates its business activity that is expensive.

In more technical terms, the argument over inflation in the 1970s raged over a statistical construct the Philips curve that was estimated in the 1950s and 1960s and seemed to imply a possible trade off that could be manipulated for policy purposes: higher inflation, less unemployment.

The familiar narrative of course suggests that we should view the 1970s as the decade in which monetarism displaced Keynesianism. But as Hugh Pemberton and others have argued that story is ambiguous in several respects not least that Keynesianism did not simply fade away. In fact, the collapse of Bretton Woods in the early 1970s liberated Keynesianism into a new, more elaborate more florid style. This had a political side. Keynesianism radicalized. The Labour Left's alternative economic strategy being one familiar expression. But it also had a calculative dimension. The late 1960s and 1970s were really the first moment in which elaborate econometric macroeconomic models came into their own. To help master the complexities involved, these tended to be constructed in a modular fashion. And the Philips curve was integrated into them as the so-called "wage-price sector".

One could write a truly fascinating history of this calculative arms race between the Keynesians and their critics.

But I want, instead, to swerve off and look at two classic metacritiques of technocratic expertise sparked in the 1970s by the debate about inflation, both of which hinge on the question of calculation. I want to juxtapose John Goldthorpe's classic essay "The current inflation: a sociological account", which appeared in the 1978 volume edited by Hirsch and Goldthorpe *The Political Economy of Inflation*, with the famous critique of econometrics by Robert Lucas, which appeared in 1976 and became famous as the "Lucas critique". Both are *engagé* pieces by leading social scientists from very different corners you might say, but linked I will argue by certain common themes.

On the face of it, Goldthorpe's essay is an attempt by a sociologist to intervene in a debate about inflation dominated by economists. His points of entry are the residual categories employed by economists when their models reach their limits, elements which are essential but lack a positive definition within the framework of their models. These tend to be ad hoc sociological categories, but what makes them particularly interesting both for Goldthorpe and for us is that they are freighted with terms that connote irrational, non-calculating behavior that reflects ignorance, error and emotion.

Governments are blamed for allowing inflation because they are woolly minded, irrational, uninformed about essential monetarist truth. Trade unions engage in extreme bargaining behavior, wage leapfrogging, or new leftists impulses to demand “everything now”. At the bottom of the pile it was the unmoored expectations of the masses that drove the avalanche.

It is this chaotic scene that sets the stage for the technocratic pretension of the economists to restore order by means of enlightened management and expertise.

As Goldthorpe says: “the approach to inflation inherent in these theories is an essentially technocratic one: inflation represents a problem in implying that something is going wrong in a system which is known in principle to be viable. Thus, determining the causes of inflation and finding a solution to the problem are both primarily intellectual exercises. And given that a solution is available – in the form of “good” economics – inflation can continue to exist only as a result of whose with the power to act against it either not recognizing, or refusing to take the appropriate, that is the, technically correct, course of action for bringing it to an end.” Goldthorpe 211

Against this simple model of confusion and enlightenment, Goldthorpe positions sociology as a kind of meta-wisdom, a meta-calculation. “(T)he ambition of any sociological enquiry must be to go further … it must be to investigate how inflation, understood as the monetary expression of distributional conflict, is ultimately grounded not in error, ignorance or unreason … but rather in on-going changes in social structures and processes. And moreover, once such changes are established as analytically basic, the goal and potential of sociological analysis should then be to show how the actions of rank-and-file employees, union leaders, governments etc are, if not rational in the economist’s sense, still intelligible: that is to say, express a logic which is adequate form the actor’s point of view, in the situation in which he finds himself, and which at the same time is apprehensible by the “outside” observer.” 195

In search of an “analytical base” that will provide a new “intelligibility” Goldthorpe goes on to provide a portrait of British society in the 1970s not characterized by all-pervasive, confusion and miscalculation, but by conflicts that were coming more and more sharply into focus. This clarification happened along three axes: 1. The decay of the status order that had previously masked and consolidated the class structure. 2. The realization of full citizenship claims, which clashed with economic inequality. 3. The emergence of a “mature” urban working-class, born without cap doffing habits of deference imported from the countryside.

What is striking in each of these cases, is the way in which Goldthorpe inverts the real/phenomenal, real/imagined hierarchy that economics had imposed. Goldthorpe speaks of “class inequalities” that were coming “increasingly to be seen, and to be judged, for what they are – the products of the market economy – without the benefit of the normative camouflage which the status order previously created.” 200

The inflationary wage push was due not to the “emergence of new psychological “impulses”, which lie beyond the bounds of rational intelligibility, but on the contrary to a clearer, more hard-headed, indeed more rational appreciation of the nature of class inequalities and of resultant balance-of-power situations.” P. 210

The workers have learned to count and to weigh up their own strength.

Goldthorpe’s sociological critique of economics clearly derives from the mid-Victorians i.e. Karl Marx and that first generation of critique of the quantified portrayal of society provided by economics.

For sociologists, Goldthorpe declares, the economic problems are “epiphenomenal”. “in order to understand the relationship between economic quantities in terms of which the problem is defined, one must understand the underlying, generative, relationships between social groupings – and that these will themselves present further “problems” of a kind which are not open to merely technical resolution in the light of economic science.” 212

The juxtapositions are striking. So much so that one is tempted as science studies and actor network theory would begin to do from the early 1980s, to turn the meta-move back on sociology itself.

What makes social groups underlying and generative, or at least more so than the superficial accounts that they denounce and relativize?

If one follows the flow of Goldthorpe’s meta-move the obvious question to ask is simply how one calculates those underlying generative relationships between social groupings. Not that John Goldthorpe, as the leading empirical sociologist of his generation, would be lost for an answer. Indeed, he already begins to sketch a means of testing his propositions, following a comparative logic of quantitative correlation, even in this short essay. Britain’s position on the leading edge of social development he argued, corresponded to its advanced position in the inflationary league tables.

But what I find striking reading Goldthorpe is not so much this classic juxtaposition between sociology and economics, as the hastiness in his treatment of a third category, politics and political calculation.

It is not that Goldthorpe does not reckon with politicians but what is interesting is the reductive way he does it. In the manner of the “economics of politics” they are constrained to respond to social forces, which of course means Goldthorpe’s particularly stark and dramatic reading of the forces moving British society in the 1970s. What is decisive, he insists, is the antagonistic position of the mature, clear-sighted, non-deferential working class. Given this antagonism, the “basic, abiding, and eminently responsible concern of most politicians is that the legitimacy of government should be preserved; and hence they will have a fully rational aversion to policies that risk leading government into situations in which its authority would face a head-on and powerful challenge.” The shock doctrine of monetarism with its call for confrontation is therefore, Goldthorpe predicts, “ever destined for inevitable betrayal” 210

When push comes to shove, given that on Goldthorpe’s reading what is at stake is the basic legitimacy of society, it seems obvious to him that a rational calculus will drive the political class towards income policies and wage controls rather than outright confrontation. He is writing remember before 1978.

Interestingly, whereas Goldthorpe is bent on rationalizing the behavior of all the key actors in the system, the position of the intellectual observers i.e. Goldthorpe himself is underdetermined.

What makes the sociologists so wise one is tempted to ask? And what makes the economists so unthinkingly technocratic? What determines their different modes of calculation and what difference do they make in the world that they seek to map?

These questions that are left open by Goldthorpe are brought to the very heart of the discussion by the second of my two texts, Robert Lucas's famous critique of econometrics.

In 1976, Robert E. Lucas launched a metacritique of economic policy that has since come to be seen as revolutionary. Interestingly, it started at exactly the same point as Goldthorpe. What assumptions were economists and economic modelers making about the calculations going on in the economy, when they themselves attempted to calculate and predict that economy's behaviour? Clearly economists advising government placed themselves amongst the calculators. But what of the people they modelled? Generally, econometric modelers thought of themselves as working to identify a structural model of the economy. The crucial thing that this enabled was prediction. But that was just the first step. The next step was then to use this robust model to generate a range of counterfactuals each of which described a different world under a different policy, which could then be weighed up to pick the least worst outcome.

But what models of economic behavior, Lucas asked, were these structural models that the econometricians were fitting to the data, actually based on? The econometricians were alarmingly vague. Specifically, with regard to the wage-price sector that drove the inflation story in their models and lead them to advise governments to accept relatively high inflation to achieve low unemployment, they were very vague. The Philips curve in particular relied on exactly the kind of ad hoc stories of ignorance and miscalculation on the part of wage and price setters that Goldthorpe had skewered.

Clearly it would be better Lucas argued, as did Goldthorpe, to treat important social actors as rational.

But now Lucas added the crucial meta move. If we did regard workers and employers as rational actors and they had reason to believe that that their world was substantially influenced by government, then the government's own policy, and the econometricians who were advising them, would suddenly become an essential preoccupation of all the agents trying to perform their own maximizing calculations. And that in turn had implications for the modelling of the econometricians. Because "given that the structure of an econometric model consists of optimal decision rules of economic agents and that optimal decision rules vary systematically with changes in the structure of series relevant to the decision maker, it follows that any change in policy will systematically alter the structure of models."

Lucas, the economist, made a move to reflexivity that Goldthorpe, the sociologist, never made.

To put this more graphically, rather than the world waiting passively to be estimated by the econometricians the situation was more like a hair-trigger game of rock, paper scissors, where the slightest hint by either player that they were committed to a move in one direction would trigger a sudden change by the other. This was devastating to the entire technocratic policy model. What Lucas was arguing was that the result in a knowing and calculating world, of their being powerful economic policy instruments purportedly manipulated according to a rational predictive calculus, was to render that world entirely contingent.

Lucas then drew two conclusions, one of which is famous, the other, even deeper is less often picked up but seems essential to our discussion as historians.

The first and famous conclusion to be drawn from the Lucas critique is that if we want the world to be predictable, policy must be constrained by rules. Interestingly, Lucas pitched this in terms of communication, or, a hermeneutician might be tempted to say, in terms of a merger of horizons: "agents responses become predictable to outside observers only when there can be some confidence that agents and observers share a common view of the nature of the shocks which must be forecast by both." Lucas 41

From rules, by way of communication Lucas then moved swiftly to politics. "policy makers, if they wish to forecast the response of citizens must take the latter into their confidence. This conclusion if ill-suited to current econometric practice, seems to accord well with a preference for democratic decision-making." In fact one might be tempted to say that rather than democracy Lucas was in fact making an argument for the law-bound Rechtsstaat as an essential precondition for social calculability.

However, in a move that seems both truly radical and underappreciated in its force, Lucas makes a second step. By the force of his own argument, he admits that what we may say, for better or worse, about policy that is not ruled bound, is fundamentally limited.

As Lucas says: "the preference for "rules versus authority" in economic policy making suggested by this point of view, is not, as I hope is clear, based on any demonstrable optimality properties of rules-in-general (whatever that might mean). There seems to be no theoretical argument ruling out the possibility that (for example) delegating economic decision-making authority to some individual or group might not lead to superior (by some criterion) economic performance than is attainable under some, or all, hypothetical rules … the point is rather that this possibility cannot in principle be substantiated empirically. The only scientific quantitative policy evaluations available to us are comparisons of the consequences of alternative policy rules."

In other words there is something irreducibly decisionistic about large-scale, sovereign interventions that break the rule, that declare the exception. Goldthorpe's move to rule out the possibility of a Thatcher or a Volcker shock on the basis of a calculus of rational choice is unwarranted. And may in fact be self-defeating. To conclude that no rational government would ever chose to break the inflationary status quo by means of a deliberate provocation of conflict has no calculable foundation. The argument over the costs and benefits of this type of historic rule changing intervention will be undecideable, because there is no general model against which non-ruled-bound counterfactuals can be systematically tested, because the effect of any such sovereign action is to subvert the possibility of a robust structural model.

Can one help wondering whether in making this argument for the limits of calculation, Lucas has not algebraically mapped out the zone of what, at least under one definition, we call history?

Apart from their inherent interest as arguments what is the significance of these two cases?

The obvious suggestion would be that with Goldthorpe and Lucas, reflexive modernity enters a new and radical stage. Goldthorpe dramatizes the social scene. Lucas provides the founding argument for a new type of economic politics. Both could be seen as offering a road map to neoliberalism.

But with the questions of our workshop in mind, one might wonder whether rather than seeing this in these developmental terms, one might regard reflexive critiques of the kind I have highlighted as expressions of recurring crises, episodes one might dub crises of calculability. And whether or not, in an argument borrowed from Koselleck these might not need to be seen as a chronic condition of modernity, marked by recurring calculations debates bookended for convenience by names such as Petty and King, Condorcet and Malthus, Farr and Marx, Knight, Marshak and Hayek down to Lucas and Goldthorpe.