

# Review essay

## Economics after the crisis, and the crisis in economics

### *Economics After the Crisis: Objectives and Means*

Adair Turner

MIT PRESS, 2012

Reviewed by Martin O'Neill

Adair Turner, in his intriguing short book, *Economics After the Crisis*, based on his 2010 Lionel Robbins memorial lectures at the LSE, comes to bury the curiously undying ideology of market fundamentalism that has had such a profound presence in our recent history. Turner, a technocratic insider with a curriculum vitae that includes stints as a director at McKinsey, as an economist at Chase Manhattan, and as Director-General of the CBI, before his most recent incarnation as Chairman of the Financial Services Authority (FSA) until its abolition by the Coalition government earlier this year, sets himself up as an anti-neo-liberal Van Helsing, determined to hunt down, and then put down, the vampyric conventional wisdom in economics and finance. Specifically, Turner takes aim at these three central claims:

- (1) Societies have an overwhelming imperative to pursue the maximisation of economic growth in terms of measured GDP, as this will ensure a maximum return of whatever it is that we all have most reason to care about.
- (2) Deregulated markets, maximally privatised and liberalised, are the most efficient way of organizing our economic life, and will deliver the objective identified in (1).
- (3) It is irrational (and perhaps, indeed, in Martin Feldstein's words 'spiteful': Feldstein, 2005, 12) to think that we have any reason at all to care about inequality.

Of these three claims, the first two are empirical, concerning relations between institutions and their consequences, while the third is normative, concerning values. To show that the first claim is false, one need only consider that, holding other things equal, a summer Sunday where you and I spend the day playing football in the park with our

children contributes much, much less to GDP than a summer Sunday where I buy a tank of petrol, set fire to it in your garden, and you then employ a team of workers to engage in an intensive process of environmental clean-up. Or, as Paul Samuelson famously put it in his canonical textbook, *Economics*, with a dated but telling example, we know that there is something wrong with GDP measures given that, all else being equal, if a man marries his maid, GDP will fall.

For opposition to the second claim, consider the fact that the US spends significantly more proportionally of its income on healthcare than any other country (17.9 per cent of GDP according to WHO statistics, compared with 10-12 per cent in the larger EU countries), and yet achieves decidedly mediocre health outcomes, with infant mortality rates higher than any other comparably rich country, and life-expectancy levels setting the country in 34th place worldwide (by the CIA's own figures), significantly behind the other G7 countries. Such statistics might well cause one to greet with an incredulous stare the outlandish assertion that market mechanisms always deliver outcomes more efficiently than state-based solutions. In any case, Turner's point that we have good reason to reject (1) and (2) should not strike us as surprising or unexpected.

The third claim is, in one way, more difficult to undermine, resting as it does on a claim about values rather than facts. But it would be a result of arresting improbability if we really thought it appropriate to believe that the political value of equality, which has over the centuries inspired men and women into political action in every inhabited continent, and which is central to the moral vision of philosophers as various as Rousseau, Paine, Tawney, Dworkin and Rawls, could really be dismissed as irrelevant with a single stroke of an economist's pen (see Johnston, 2000; White, 2007; O'Neill, 2008). And so, I'd suggest, Turner's quest does not involve arriving at a destination that anyone should find surprising or implausible. Rather, he sets himself the task of giving us reason to reject a bundle of views that nobody who was not already in the grip of a distorted ideological picture would ever have seriously entertained.

At the risk of ruining the ending, I can reveal that his quest is, indeed, in many ways a notable success. But it is difficult to know what one's reaction to the success of Turner's quest should be. One plausible reaction is endorsement of the project, joined to a certain relief that the man who was in charge of the FSA should have a clear view of what is so wrong with the further reaches of neo-liberal fantasy. But it is inevitable that one's response to Turner's book has to be tempered by at least a degree of incredulity that such an undertaking should still be necessary. The bankruptcy of market fundamentalism is not difficult to diagnose; the evidence in favour of rejecting this discredited picture is all around us. Indeed, were Turner not such an impeccably establishmentarian figure, his project would seem decidedly unremarkable. But, as things stand, and as writers such as Colin Crouch and John Quiggin have pointed out, in *The Strange Non-Death of Neo-Liberalism* (Crouch, 2011) and *Zombie Economics* (Quiggin, 2012) respectively, there is a strangely vampyric quality to the discredited doctrines of market-fundamentalist neo-liberalism. We may be surprised at the on-going need to keep on attacking undead doctrines, but it is, on reflection, all to the good that Turner is committed to impaling his own distinguished stake in their heart.

Turner's book divides into three parts, the first concerned with economic objectives,

the second with economic means, and the third with the future of the discipline of economics itself. I'll say something about each in turn.

### **Objectives: growth, well-being and inequality**

Following writers such as Layard (Layard, 2011), and Wilkinson and Pickett (Wilkinson and Pickett, 2010; see also O'Neill, 2010), Turner is struck by empirical research that shows both that there are no robust international correlations between GDP per capita and levels of apparent utility or self-reported life satisfaction, and nor is there a reliable inter-temporal relationship between GDP per capita and life-satisfaction levels within particular countries. Surveying the empirical field, Turner tells us that 'we do not have good reason for believing that further growth in measured per capita GDP will *necessarily* deliver further significant increases in human contentment' (p. 11) (emphasis in the original). This claim has the virtue of being true, but the vice of being jarringly obvious. It could hardly surprise us that there is no necessary connection between per capita GDP levels and individuals' self-reported levels of well-being. For consider what the world would have to be like in order for that relationship to hold of necessity: individual well-being would have to be inexorably indexed to national income, with no other factor playing a significant role. Any economist who might be surprised by the empirical facts here puts one in mind of a hammer, amazed to have discovered that not every other object in the world is a nail.

Turner's marshalling of the empirical data on the 'experiential returns' to consumption is interesting and valuable. It is a commonplace assumption that there are diminishing marginal returns of utility to economic goods, but Turner does a good job of showing how the falling-off of utility curves may be quicker and more marked than we would initially imagine, given the redirection of income above a certain level towards status-based consumption and the purchase of positional goods, where access to such goods is determined not by absolute income levels but by relative income levels. Turner is also alive to the existence of various kinds of externalities to consumption, including various kinds of environmental effects. Following Roger Bootle's distinction (Bootle, 2012) between 'creative' and 'distributive' economic activities (and echoing William Baumol's distinction (Baumol, 1990) between 'productive' and 'unproductive' entrepreneurship or, indeed, Ed Miliband's distinction (Miliband, 2011) between 'productive' and 'predatory' economic activity), Turner is refreshingly ready to point out that many highly remunerated individuals actually do nothing to *add* to the social product, as opposed to shifting its distribution from one recipient to another (where, of course, that recipient to whom the product is shifted is very often themselves). In this category, Turner is happy to place most of those who work in marketing and public relations, lawyers and – most significantly – many of those who work in the financial sector. When we constantly face the mantra that those who work in the City are 'wealth creators', it is good to be reminded, in clear terms, by no less a figure than the former Chair of the FSA, that 'financial services (particularly wholesale trading activities) include a large share of highly remunerated activities that are purely distributive in their indirect effects' (p. 18). This is, after all, the same Adair Turner who created waves in 2009 by telling *Prospect* magazine that much of the activity of the financial sector of the economy was 'socially useless'

(Turner et al., 2009). These are important points, and Turner makes them well. Much public debate on the place of financial services fails to distinguish between the City of London as a location in which wealth is created and a location in which wealth is merely concentrated. Turner does not make this mistake, making it clear that such concentrations can be the result of shifting wealth *out of* other sectors of the economy, rather than being attributable to the creation of value.

Moreover, as Turner points out, the failure of aggregated national accounts to distinguish between different modes of economic activity – between the creators and the distributors (or the ‘producers’ and the ‘predators’) – is one reason why GDP data are so uninformative. He captures that central idea in a rather memorable example: ‘If over a period of time the intensity of divorce litigation increases, and the income of divorce lawyers increases, and if as a result more highly skilled people seek to become divorce lawyers, we should not expect society to gain from that reallocation of skilled human resources, even though the output of divorce lawyers shows up in GDP calculations as much as that of highly skilled doctors’ (p. 19). One cannot read that sentence without it sparking the wistful thought that we might have an astonishingly productive capitalist economy if only all those fantastically sharp and hard-working people who become City traders or commercial lawyers found a more ‘creative’ and less ‘distributive’ outlet for their talents.

Moving to the question of the significance of inequality, Turner has some plausible things to say, but he remains constrained by the restrictions of his approach, and his failure to jettison some of the unhelpful assumptions of economic thinking. His examination of empirical research on the relationship between unemployment and self-reported well-being is a case in point. As he shows, unemployment is associated with major losses in utility, ‘because work is for most people crucial to a sense of status and social relationships, and unemployment is a driver of low self-esteem and isolation’ (p. 32). The standard way in which an economist might understand this relationship is in coming to the view, as Turner does, that this drop in utility might give us reason to favour more macroeconomically stable policies (even at the cost of not maximizing aggregate growth), given that we have reason (let’s assume) to increase aggregate utility. But if we’re not constrained to treating effects on individual utility as the unique normative bedrock in explaining the significance of any social effect, one might instead suggest an alternative view, more consonant with a fuller appreciation of the significance of inequality. On a less economic view, we should not think that the problems of the unemployed, as regards their social status, are significant because they are a source of unhappiness, but rather that they are a source of unhappiness *because* they destroy self-respect, and as such are of independent significance for people who are owed, as a matter of basic egalitarian concern, the preservation of what Rawls called ‘the social bases of self-respect’ (Rawls, 1971; Rawls, 2001). Turner’s orientation as an economist, albeit as one with ambitions to throwing off the bad old assumptions of narrowing dogma, seems to allow him to grasp only one possible direction of normative justification, where everything ultimately bottoms-out in effects on individual utility. This is a needlessly impoverished picture, and its adoption prevents us from capturing the real moral and political significance of economic inequality.

There is a tendency in economic thought – perhaps due to an overhang from utili-

tarianism – that tries always to assimilate the significance of the effects of inequality to effects on individual utility or happiness. But this sort of approach is unduly limiting, as we need not build the assumption into our thinking that what matters socially always reduces straightforwardly into individual utility-effects; rather, one can take the view that there is a separate and irreducible significance to the preservation of egalitarian social relationships between citizens, and to the background protection of the social and economic preconditions for such relationships. Thus, one could believe that accepting a broader political theory of the value of equality gives one the resources to buttress the case for policies which (for example) favour macroeconomic stability over aggregate growth. With an approach that reduces the significance of inequality as a social phenomenon to its impact on individual preference-satisfaction, we have an essentially eighteenth or nineteenth century philosophical outlook, preserved in aspic. This problem seems to flow from the curious isolation of the discipline of economics, as it has reliably failed to engage with the thinking of neighbouring disciplines. Keynes famously talked about all hard-headed ‘practical men, who believe themselves to be quite exempt from any intellectual influence’ usually being ‘the slaves of some defunct economist’ (Keynes, 1936, ch. 24), but it would seem that even decidedly non-defunct economists are themselves slaves to fully defunct utilitarian philosophers.

Broadening the particular example at hand, one could plausibly argue that stable macroeconomic conditions are themselves a basic requirement of social justice, insofar as large shocks to the macroeconomy typically carry with them fiscal instability, and reduce the capacities of states to continue to maintain stable social programmes and tax regimes. Such fiscal shocks typically impact on the less advantaged much more severely than they impact on the more advantaged. This pattern is currently widespread: the macroeconomic shock generated by the financial crisis has destabilised the fiscal position of many governments, necessitating a pattern of cuts and tax hikes that have a disproportionate impact on those who were already disadvantaged. The badness of macroeconomic shocks, resulting from the pricking of financial bubbles, has generally received attention with regard to their costs in terms of overall economic growth, and so the specifically distributive and justice-related dimension of macroeconomic stability have received insufficient attention. It is one thing to point to the badness of macroeconomic instability, as Turner does, in terms of the asymmetry of individual preferences as between losses of current assets and the mere failure to realise a potential future gain (the well-known ‘endowment effect’), but unless one is prepared to address the relationship between justice and economic stability directly, in a way that does not route all normative discussions through a utilitarian calculus, one is unlikely to get to the heart of the matter. Turner, despite his moderately iconoclastic intentions, is prevented from addressing such questions directly by the rather restricting set of methodological assumptions that he has inherited from traditional approaches to economics.

In some ways, it is a mystery that the discipline of economics is so structurally estranged from philosophy and political theory, especially in the UK where so many economists, rather than having been formed in disconnected academic bunkers, are products of a relatively broad-based education in PPE. Perhaps our universities are somehow failing to produce economists with a broad perspective, or perhaps that broadness of outlook gets eroded later, by the professional demands and expectations

placed on economists in both academia and the private sector. Worryingly, this is just part of a broader pattern, whereby economics becomes ever more abstract and technocratic, oddly disconnected from the warp and weft of genuine political debate, as well as from its neighbouring academic disciplines. Economics too often sees itself standing aloft as an objective, scientific enterprise; a self-image that has become increasingly frayed and implausible in the light of recent economic history. Whatever its explanation, the narrowing and disengagement of economics is a disquieting phenomenon, and one that has a number of unwelcome consequences.

While Turner makes a heroic effort to throw off a number of the old dogmas, it would have been supererogative if he had repudiated them all. At any rate, one certainly cannot demur from his conclusion about the ends of economic policy, which is that ‘the instrumental justification of free markets and inequality, which has played a major role in the political discourse of both right and left for the past 30 years, has largely lost its validity’ (p. 33). But if those are Turner’s findings as regards the ends of economic policy, what of means?

### **Means: financial markets, inefficiency and the distribution of income**

Turner has made a convincing case that the objectives of economic policy should not be restricted to a concern with aggregate growth, given that we have good reasons to care about the reduction of both inequality and instability. But, as Turner points out, adding his name to the ranks of economists and economic historians who have recently made similar points (see e.g. Reinhart and Rogoff, 2009; Chang, 2010), even if our concern is narrowly with economic growth, the evidence does not, contrary to free market dogma, point us always towards the liberalisation of financial markets. In fact, the evidence of the late twentieth century is that what Turner calls ‘financial repression’ (that is, the tight regulation of financial markets) went hand in hand with the impressive and steady growth of the *trente glorieuses*, while financial liberalisation has been correlated with (whether or not it has caused) periods of weak and sporadic growth. As Turner puts it, ‘... in the developed countries – the United States, Europe, Japan – that period of financial repression was one of significant and relatively stable growth, comparing fairly well with the subsequent 30 years of increased financial activity and financial liberalisation’ (p. 40). So in thinking about economic means, we must start with the important caveat that, even if we fail to move beyond the discredited neo-liberal picture of economic *ends*, there is still good evidence for the rejection of the shrill and repetitive dogmas of liberalisation and deregulation that have for so long formed the received wisdom about economic ends among Keynes’s ‘practical men’ and women.

As we might expect, given Turner’s professional role, at the time he wrote the book, as Chair of the FSA, perhaps the strongest and most impressive section of his book comes when he considers the operation and regulation of financial services. We’ve already encountered the point that much activity in the financial sector is ‘distributive’ rather than ‘creative’, but things are actually much worse than that bare fact would suggest. Turner points out that part of the explanation of the extraordinarily high incomes that banks are able to generate for themselves and their favoured employees is

that retail financial services 'are subject both to opacity of margins and to deep asymmetries of knowledge and market power between producers and consumers – a classic formula for above-normal returns' (p. 57). Three quick points should be made here. First, even by Turner's own lights, the language of 'producers' is here misplaced; this is not so much like a case of an individual buying a manufactured good from a producer, as the case of a tourist engaging in a deal with a casino that retains a massive house advantage. Second, given that these activities are 'distributive' in nature, and characterised by asymmetries of information and power, we should not be shy of saying exactly what such relationships are: they are instances of rampant *exploitation*, of a central and paradigmatic kind, in which one group's 'above-normal returns' is another's severe loss. Third, situations with these kinds of asymmetries of power and information are exactly the kind which even the standard economics textbooks would declare a 'market failure' needing tight regulation.

Turner is enlightening on the way in which certain structured financial products, especially those 'complex and opaque options' (p. 59) that are likely to cycle through long periods of high returns followed by sharp periods of cataclysmic losses, can, when looked at in a short-sighted frame, give the appearance of high and safe ('alpha') returns, with their true nature remaining hidden. The lure of such products will be irresistible to those who are playing in those markets, and whose own time-horizons are significantly shorter than the cycle of returns of the products which they are trading (especially where those time-horizons are keyed exclusively to next year's bonus payment). When this baleful situation is combined with the state providing a *de facto* guarantee to the whole shaky process as an insurer of last resort to institutions judged 'too big to fail' we have a situation that, as Turner puts it, using the idioms of the market players whom he is criticising, 'represents a put option onto the taxpayer, allowing banks and shadow banks to operate with high leverage that increases their returns in good years' (p. 59). Thus, the in-built instability of asymmetric or opaque information and incompatible time horizons has been made worse, and more socially damaging, by the bankers' ability to externalise the risks from which they benefit. It would be hard to imagine a more ridiculous system, or a more efficient engine for creating inefficiency, inequality and instability – fleeting gains are crystallised and privatised, securing super-normal returns to a plutocratic minority, while deep, long-range risks are borne by the taxpayer. When this system is cast in such sharp relief, it becomes vivid that the old ways of doing things simply have to be dispelled completely.

Turner's analysis is sharpest when he communicates a full realisation of the social folly embodied in our banking system. For rather than just 'distributing' absurdly inflated economic rents towards their own pockets through the operation of shaky and skewed markets, the actions of bankers also manage to inject an additional, systematic, instability into the world financial system. This added instability both creates the direct ill-effects for the disadvantaged that always accompany financial instability, but also manages to generate further systematic needs for 'hedging' financial products among those in the non-financial sectors of the economy. An out-of-control banking system is able to create self-catalysing conditions, enhancing its ability to suck money out of the real economy. As Turner memorably describes the situation:

The financial system collectively, via its own intra-financial system trading activities, tends to create volatility against which the non-financial economy then has to hedge, paying the financial system for the service: an initially zero-sum activity (proprietary trading against one another) which then becomes positive-sum for the financial industry and negative-sum for all others. (p. 59)

As Turner puts it, with some understatement, while we cannot know the exact balance between the value added by the financial system as against its externality-generating distributive activities, we do know that 'there is more potential for finance to generate redistributive rents than exists in most other sectors of the economy. And a lot of those rents stick to ... [bank] employees' (p. 59). Therefore, we have a situation where 'marginal private product can be high even when marginal social product is negative' (p. 60). In simple language, the outgoing Chair of the FSA thinks that a large part of the explanation for the ultra-high, inequality-cascading incomes of the best paid City workers is that these people have found a scam for sucking value out of the economy, to the significant disadvantage of almost everyone else. What is heart-breaking about this crazy state of affairs is that it has come about as the direct result of decisions made by democratically-elected governments to pursue 'light touch', deregulatory policies, either through a culpable submission to neo-liberal ideology, or a reckless failure to exercise a basic state function in using regulation to protect citizens from the unaccountable exercise of power by financial elites. What is even more difficult to accept is that, despite occasional flurries of noise, so little has been done to change things, and so little of what is on the political agenda of any mainstream party comes close to being even halfway sufficient as a response to the magnitude of the on-going harms being wrought upon us all.

The diagnosis is dire but, unfortunately, Turner's suggestions for treatment are weak and imprecise. Despite announcing that the second part of his book would be concerned with policy 'means' rather than just with 'ends', he is short on specifics, beyond the general and unsurprising thought that mainstream economists need to shed their habitual hostility to the serious regulation of the financial sector. It may be, of course, that Turner's professional position meant that it was too sensitive for him to be able to articulate what would really be needed in order to create a new settlement in the relationship between destabilising, exploiting financial institutions and the democratic societies within which they operate, and on whose protection they perversely depend. If we accept Turner's arguments, then we know that we need stronger regulation, and a more active concern with macroeconomic stability and the reduction of inequality; further, we know that much of the apparent 'wealth creation' of the financial sector is mere smoke and mirrors. He tells us that we therefore have good reason to reject liberalisation and deregulation, but he does not tell us what should take their place. To paraphrase Antonio Gramsci, Turner assures us that the old is dying and he gives us an inventory of the 'morbid symptoms' that accompany its passing; what he does not tell us in anything like the needed level of detail is how a new system can be born.



### Implications: public policy and the future of economics

As I've pointed out, Turner's concrete policy recommendations are thin on the ground. Instead, what we get is a general orientation towards a more humane capitalism, concerned with equality and stability as well as growth, and with a commitment to the abolition of involuntary unemployment. In other words, what is presented in Turner's book as a hard-won theoretical victory for unorthodox insights is, in many ways, no more than a return to the obvious common sense of any civilised society, before the perplexing intellectual spasm of neo-liberalism. Turner sets himself against an ill-defined anti-growth position that he describes as 'radical green egalitarianism' (p. 73), and defends economic growth as a welcome concomitant of allowing agents to have 'economic freedom', understood in terms drawn from the work of Amartya Sen (he cites Sen, 1999) as the capability for functioning as active economic agents, rather than understood in libertarian terms as economic freedom as freedom-from-regulation. A curiosity of Turner's view, occasioned by his reluctance to engage more deeply with work in political philosophy, is that he seems insufficiently aware of the radical egalitarianism of his own avowed view, which is that 'inequality, rather than being instrumentally justifiable because and to the extent that it delivers growth, is justifiable because and to the extent that it is the unavoidable concomitant of economic freedom' (p. 73). The combination of that claim about the preconditions for justified inequality with his seeming endorsement of an understanding of economic freedom as involving the provision of conditions for the active engagement of individual economic agency (rather than a libertarian view of economic freedom as involving a 'negative' zone of government non-interference) places him in the mainstream of egalitarian liberalism of the kind associated with Sen, Dworkin and Rawls.

Turner's high bar for the justification of inequalities, combined with his concern for securing the preconditions of the economic agency of all should, if followed assiduously, lead him in the direction of ideas such as a Rawlsian 'property-owning democracy' (i.e. a radically egalitarian society with broad dispersal of control over productive resources: Rawls, 2001; O'Neill and Williamson, 2012a, 2012b; Doron, 2012), or other strategies for combining economic liberty and substantive equality through the redistribution of control over capital (Guinan, 2012; O'Neill and Williamson, 2012c). One suspects that this isn't a destination which Turner has considered, or one about which he would feel comfortable – at least initially – about being directed towards; but it is towards such territory that the internal logic of Turner's position should bear him.

Giving Turner his due, his discussion of inequality carries some lessons for proponents of 'predistribution' as a central approach to creating a fairer and more well-functioning society. As Turner rightly points out, the 'all-purpose and all-party response to the problem' of inequality that consists simply in 'increasing skills' cannot possibly do as much work as some of its proponents might hope. For one thing, we cannot 'upskill' a whole workforce, as 'the vast majority of jobs [even] in a rich developed economy are in non-traded sectors of the economy – retailing, wholesale distribution, leisure, health, education' (p. 86). Moreover, there is a kind of fallacy of composition at work if one thinks that increasing skill levels in the aggregate will be

sufficient to reduce income differentials, given that it is competition with regard to *relative* skill levels that often determines who ends up in what job.

Turner's lesson here is that if we want to reduce equality, then we have to do so directly, and cannot hope to do so by oblique mechanisms. Given Turner's understanding of the role of positional goods and comparative status measures (rather than absolute income levels) in determining labour incentives, he is refreshingly welcoming to the prospect of increasing income taxation at the upper level of the income distribution, laudably avoiding the self-serving pieties that emanate from so many people of his training and background. There is little consideration, though, of the role of the tax system beyond income taxation, or of how a government that was truly concerned with promoting greater equality and spreading opportunities for real 'economic freedom' could do much more to tax wealth and fixed capital.

Turner's strongest words are reserved for his fellow economists, and for their manifest failing to deal with the world as it is or as it could be, given their preference for the fantasy worlds of abstract models populated by 'rational' actors with perfect information. Quite properly, he reserves telling scorn for those who looked to convert abstract work in economics into the common sense of practical people, as with the writers for *The Economist* and the *Financial Times*, and their common elision of important differences between outcomes that may be growth-promoting and outcomes that really are in *everyone's* (i.e. each individual's) interests. Turner is very good on the important gaps between the elegant models of economists who are deriving results about an austere mathematical realm, and the real world of political decision-making, where values are at stake, and where a rote appeal to a result that holds only within an idealised economic model is often an act of both political and intellectual abdication. 'The insights of Arrow and Debreu ... once simplified and shed of their complexity' seemed 'to provide support for the conventional wisdom' but only (among other illegitimate simplifications) by the cavalier conflation of claims about what is efficient or Pareto-optimal, and what is actually 'socially optimal' (pp. 91-2).

Turner's overall idea would seem to be that the academic discipline of economics has gone wrong to some degree by forgetting values and forgetting history, but that the broader culture of discussion of economic issues has gone much further astray, by failing to see the foolishness of taking academic economics at face value, without appropriate translation or contextualisation. If Turner is right on both sides of this diagnosis, then two kinds of things need to happen. The discipline of economics needs to return from its not-so-splendid isolation, reconceive itself as a humanistic discipline that connects with politics, history, culture and values, and give itself the task of useful reconnection with real-world deliberation about how we might build societies and economies that are more fully fit for human habitation, lacking the lunatic pathologies of our current financial system. A start down this road has been taken, especially through the work of the Institute for New Economic Thinking, with which Turner himself has been associated (see <http://ineteconomics.org>). Since the dissolution of the FSA, Turner has now moved to be a Senior Fellow at INET, so perhaps we can hope that his future work will be free from the mark of institutional constraint.

Alongside this, coming from the side of politics rather than from academic economics, we need to think seriously about how financial institutions should relate to,

and be regulated by, the states in which they operate. This needs to happen under clear light, free from the obfuscating shadow cast by neo-liberal dogmas that are themselves the distorted reflections of a literally *useless*, disconnected theory. In a world where, even five years after the start of the financial crisis, a state-rescued, 81 per cent state-owned bank, RBS, could post losses in 2012 of £2 billion while paying £785 million in performance bonuses to its staff (see Treanor, 2012), there is a sort of horrifying grandeur to the injustice of our current arrangements. Rather than tinkering around the edges of banking regulation, there is a pressing need comprehensively to restructure financial regulation so that it becomes impossible in the future for the upside to be privatised while the downside is socialised. When even pillars of the financial establishment like Adair Turner are ready to be so explicit about the scale of the harms done by the inequality and instability generated by the current system, we should conclude that it's time for a transformation in our approach. Turner shies away from laying out convincing answers to the problems that he has posed, but he does at least show the scale of what needs to be done. Only when parties of the left have a convincing account of how the financial system can be made to serve people rather than to exploit them will we have a political story to tell that is as radical as reality demands.

**Martin O'Neill** is Senior Lecturer in Moral and Political Philosophy at the University of York and a Commissioning Editor of *Renewal*.

*For helpful discussion of issues relating to this review essay, or comments on earlier drafts, I am grateful to Joe Guinan, Ben Jackson, Mary Leng, and Thad Williamson.*

## References

- Baumol, W. (1990), 'Entrepreneurship: productive, unproductive and destructive', *Journal of Business Venturing* 8 (3): 197-210.
- Bootle, R. (2012) *The Trouble with Markets: Saving Capitalism from Itself*, second edition, London, Nicolas Brearley.
- Chang, H.-J. (2010) *23 Things They Don't Tell You About Capitalism*, London, Allen Lane.
- Crouch, C. (2011) *The Strange Non-Death of Neo-Liberalism*, Cambridge, Polity Press.
- Doron, N. (2012) 'Property-owning democracy and predistribution', *Renewal* 20 (2/3): 150-3.
- Feldstein, M. (2005) 'Rethinking social insurance', *American Economic Review* 95 (1): 1-24.
- Guinan, J. (2012) 'Social democracy in the age of austerity and resistance', *Renewal* 20 (4): 9-19.
- Johnston, D. (ed.) (2000) *Equality*, Indianapolis, Hackett Publishing.
- Keynes, J. M. (2007) [1936] *The General Theory of Employment, Interest and Money*, new edition, Basingstoke, Palgrave Macmillan.
- Layard, R. (2011) *Happiness: Lessons from a New Science*, second edition, London, Penguin.
- Miliband, E. (2011) speech, Labour Party Conference, 27.9.2011, at <http://www.newstatesman.com/uk-politics/2011/09/britain-valuesgovernment-work>.
- O'Neill, M. (2008) 'What should egalitarians believe?', *Philosophy & Public Affairs* 36 (2): 119-56.
- O'Neill, M. (2010) 'The facts of inequality', *Journal of Moral Philosophy* 7 (3): 397-409.
- O'Neill, M. and Williamson, T. (eds.) (2012a) *Property-Owning Democracy: Rawls and Beyond*, Oxford, Wiley-Blackwell.

- O'Neill, M. and Williamson, T. (2012b) 'Philosophical foundations for "good capitalism"?', *Renewal* 20 (1): 20-32.
- O'Neill, M. and Williamson, T. (2012c) 'The promise of predistribution', London, Policy Network.
- Quiggin, J. (2012) *Zombie Economics: How Dead Ideas Still Walk Among Us*, Princeton, Princeton University Press.
- Rawls, J. (1999) *A Theory of Justice*, revised edition, Cambridge MA, Harvard University Press.
- Rawls, J. (2001) *Justice as Fairness: A Restatement*, Cambridge MA, Harvard University Press.
- Reinhart, C. M. and Rogoff, K. S. (2009) *This Time Is Different: Eight Centuries of Financial Folly*, Princeton, Princeton University Press.
- Sen, A. (1999) *Development as Freedom*, Oxford, Oxford University Press.
- Treanor, J. (2012) 'RBS chairman makes plea as £2bn loss is announced', *Guardian* 23.2.2012.
- Turner, A. et al. (2009) 'How to tame global finance', *Prospect* 27.8.2009.
- White, S. (2007) *Equality*, Cambridge, Polity Press.
- Wilkinson, R. and Pickett, K. (2010) *The Spirit Level: Why Equality is Better for Everyone*, London, Penguin.