Preface

There was no end to war, inequality and environmental degradation. But the second half of the twentieth century saw unprecedented economic development, a global expansion of political democracy, and tangible extensions of human rights, including to women, gay people and minorities. Colonialism – East and West – was in retreat: many countries became independent. There was rapid economic growth in China, India and other parts of the developing world. There were striking reductions in global levels of extreme poverty. World average life expectancy continued to rise. Global literacy levels doubled. Major problems persisted, but substantial progress was undeniable.¹

Into the twenty-first century we have seen a profound change of direction. From the 1980s there have been big increases in economic inequality within several countries. Many people experienced stagnation or decline in their real incomes, while the global rich continued to gather resources and power. Complacent deregulation and over-stimulation of financial markets led to the Great Crash of 2008 and to economic torpor and political instability.²

These ordeals fuelled populism and nationalism around the world. The disintegration of political order in parts of the Middle East, Africa and elsewhere led to waves of migration into Europe, which were exploited by nationalists. Meanwhile, reckless economic expansion increased emissions of greenhouse gases and made dramatic climate change an urgent problem for the twenty-first century.

Democracy itself was challenged by the use of big money to manipulate social media and sway election results. Examples of where this happened include the UK Brexit referendum in 2016, the US presidential elections in the same year, and the Brazilian presidential elections in 2018. In several other countries, representative democracy is being undermined.

And, if all that were not enough, the year 2020 was marked by the arrival of a once-in-a-century pandemic, which has led to a global economic contraction more severe than those of 2008 or 1929. At the time of writing, the global death toll in the COVID-19 pandemic is heading into the millions, and it has already led to extensions of dictatorial power in several countries. The down-

¹ World Bank (2015), Piketty (2020, pp. 16–20).

² Milanovic (2011), Piketty (2014, 2020), Alvaredo et al. (2018).

turn in the world economy and rising unemployment, caused by the pandemic and a deterioration of global trading relations, will empower further tides of nationalism and xenophobia, unless they are resisted.

Climate change and the pandemic have dramatized the need for cooperation at local, national and global levels. They have exposed the narrowness and fragility of both blinkered nationalism and self-regarding individualism. For example, during the pandemic, some individualists and libertarians shunned warnings about face masks and social distancing. For them, their individual liberty and selfishness trumped all other considerations. But many others understood that individual liberty should not be exercised to harm others, and there was a need to work together and accept restrictions to prevent the spread of the virus. This illustrated a crucial difference between liberal solidarity and extreme individualism. From pandemics to climate change, humanity must cooperate to deal with the urgent problems, as well as to defend representative democracy and our hard-won rights and freedoms.

On a personal note, I became a liberal social democrat in the 1980s. When I was still a socialist in the 1970s, I realized that political pluralism and representative democracy required a pluralistic and polycentric economy at its foundation. Markets were also needed to coordinate different subsystems and generate meaningful prices. While aware that it was heresy among many socialists, in 1981 I argued that ‘in certain sectors of the economy there is no substitute for *competition* and a *market*’.³ In *The Democratic Economy* (1984), I advocated a permanent mixed economy, with markets as well as planning. The critical reaction to this revisionist stance from some purists on the left revealed the deep ‘agoraphobia’ (fear of markets) in their political DNA. This ailment is still prominent among socialists.

I moved on. By 1987, Mikhail Gorbachev’s failed experiment with *perestroika* (restructuring) in the USSR suggested that even greater economic liberalization was required. I no longer saw state planning or nationalization as primary goals. The emphasis on cooperation, solidarity and internationalism that I retained from my socialist past was preserved within the structure of a social democratic liberalism.

The reader may trace components of this construction from my earlier books, including *Economics and Institutions* (1988), *Economics and Evolution* (1993) and *Economics and Utopia* (1999). But some elements of my thinking in this area have emerged more recently, and the political crises since 2008 have impelled me to write more on political issues, as in *Wrong Turnings* (2018) and *Is Socialism Feasible?* (2019b).

³ Hodgson (1981, p. 206; emphasis in original).

I argued in *Wrong Turnings* that the contemporary usage of the political terms ‘left’ and ‘right’ has become increasingly unhelpful. When these words acquired political meanings during the French Revolution of 1789, ‘left’ meant the promotion of liberty, equality, democracy and private ownership in a market economy.⁴ By contrast, the ‘right’ defended fewer rights, state monopoly, aristocracy and monarchy. Over the last hundred years or so, the term ‘left’ has been hijacked by very different strands of thought, including those promoting state monopoly, side-lining democracy and fearing markets. The meaning of the ‘left’ label has changed radically. With the original definition, ‘liberalism’ is clearly on the ‘left’.

Two key words that pervade much of my work are ‘institutions’ and ‘evolution’. This book is no exception. It stresses the importance of the institutional context of individual interactions, and of an understanding of how institutions operate. Evolutionary ideas are also prominent. Charles Darwin argued that we have evolved as a cooperative species. Ample modern research – on both cultural and genetic evolution – supports his conclusion.

Too many people think in black-and-white terms. Markets are treated as universally good or universally bad. The same goes for private enterprise. Similarly for nationalization. For over 40 years, I have been trying to establish a more nuanced view, where both the virtues and limits of markets are understood, and synergies between markets and the state are explored. Modern markets require the state, just as the state requires markets. But such positions, away from the extremes, are vulnerable to attack from purist forces on both sides. Some socialists regard me as a dangerous neoliberal. Some free marketeers think of me as a socialist in liberal clothing. In truth, I am neither of these.

I argue forcefully that markets are essential in any complex economy, for relative economic efficiency and to make genuine devolution and plurality of power possible. I also recognize major limits to markets in some contexts. In addition, I criticize the contextually inappropriate use of market or commercial terminology – such as ‘social capital’ or the ‘market for ideas’ – including by many on the left who should know better.

Inappropriate market rhetoric can distort our values. In universities today, students are often described as customers in an education market. But education is different from many other goods and services. You do not know what you are buying. If you did, then you would be already educated. I am fortunate to work at Loughborough University. Among its virtues it rejects the idea that

⁴ These principles were enshrined in the French revolutionary constitution of 1791 (Stewart, 1951, pp. 165–6, 231; Hodgson, 2018, pp. 36–8). The insurrectionary socialism of Gracchus Babeuf was atypical, and it did not emerge until 1795.

students are ‘customers’. Instead, education is regarded as a developmental partnership within an academic community. That is my kind of university.

As well as many others who have helped and inspired my work, the author is very grateful to Christopher Achen, Zoltán Ádám, Richie Adelstein, Tanweer Ali, Bruno Amable, Philip Armstrong, Larry Bartels, Jens Beckert, Fred Block, Jason Brennan, Rutger Claassen, Anna Coote, Frank Decker, Bruno Frey, Francesca Gagliardi, David Gindis, Ian Gough, Jim Hodgson, Peter Jaworski, Derek C. Jones, Matthias Klaes, Arjo Klamer, János Kornai, Richard Langlois, Richard Lipsey, Vinny Logan, Uskali Mäki, Deirdre McCloskey, Naoise McDonagh, Károly Mike, Philip Mirowski, Richard Nelson, John O’Neill, Sheilagh Ogilvie, Mark Pennington, Martin Ricketts, Helena Rosenblatt, Annalisa Rosselli, Gerhard Schnyder, Paolo Silvestri, Wolfgang Streeck, James Stacey Taylor, Viktor Vanberg, Bas van Bavel, Matt Vidal and countless other colleagues for support, comments or discussions. I am also grateful to Oxford University Press for permission to publish material from an article I published in the *Socio-Economic Review* (Hodgson, 2020) and to Millennium Economics Ltd for permission to use a smaller amount of material from the *Journal of Institutional Economics* (Hodgson, 2021).