

sanity, humanity and science

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Editor's Note: Five of the articles in this issue are in part or in whole responses to Bernard Guerrien's ["Is There Anything Worth Keeping in Standard Microeconomics?"](#) This discussion will be continued in the next issue.

Why Critics of Economics Can Ill-afford the "Postmodern Turn"

Yanis Varoufakis (University of Athens and University of Sydney)

The dissident's nightmare

It is a sad irony when the activities of dissidents help shore up the establishment they set out to subvert. The point of this piece is to warn the 'economic' dissident: Beware the *Postmodern Turn*! The argument will turn on the thought that postmodern criticisms of economics serve the twin purpose of (a) releasing pent-up frustration with the profession while, at once, (b) reinforcing its ideological backbone.

Every era has a tendency surreptitiously to guide young dissidents toward a specific 'umbrella movement'; one that ends up shaping their milieu. Existentialism, structuralism, neo-Marxism, etc. have given their place, in our era of devalued political goods, to Postmodernity and Deconstruction. Without wishing to discuss the 'postmodern condition' generally, I shall concentrate entirely on its likely effects on the struggle to 'civilise' economics. In this regard, the problem with postmodern thinking is that it stands no chance of success.

Postmodernity's criticism of grandiose Theory may be terribly satisfying to those who adopt its grandiose pronouncements. However, the satisfaction at having lambasted all Theory is momentary and the ensuing subversion short-lived. To paraphrase Marx, the subverters will be, eventually, subverted and, tragically, the neoclassical establishment will come out stronger and better equipped to obfuscate social reality than ever before.² If I am right, the task of the PAE movement must be to clear the way for radical criticism that avoids the postmodern trap as resolutely as it opposes economic autism.

Dissidents or the economists' handmaidens?

Modernity marginalised Religion, but retained religious transcendence by worshipping Theory. Economics emerged as the highest form of this secular creed and enchanted all of its practitioners; free-marketeer and protectionist, liberal and Marxist, Keynesian and monetarist. It now seems that some economists are breaking ranks; joining the 'other', the postmodern, side which defines itself in anti-theoretical tones that exude an atheist's anti-religious fervour. The danger is that the legitimate anger of students (which has given rise to the PAE movement) will draw them to an apostasy without a future. For despite its considerable oeuvre, postmodern criticisms of economics are doomed to shrivel and be absorbed by mainstream economics; the predator turning into unsuspecting prey. I risk this prediction for two reasons.

First, postmodernists allow economics to parade as equally scientific as the natural sciences (albeit on the grounds that *no* discipline is truly scientific). They are right of course to think that *all* theory resembles religion, since it also seeks to give meaning to the practices and expectations of whole communities. However some theories are capable of transcending religion and approaching objectivity better than others. Nature's habit of working independently of our beliefs about it means that the natural scientist *can* devise experiments which have the power disinterestedly to discard falsity and thus forge knowledge and progress. Society, on the other hand, is corrupted to the very marrow of its bones by our collective beliefs about it, and can therefore provide no objective test of social theory (the latter being part of the very web of beliefs that society is made of). Thus social theory, unlike thermodynamics, is condemned to remain untestable, and stuck in the realm of opinion. Economics valiantly attempts to extricate itself from this fate with a touching commitment to mathematics but, sadly, it only ends up as a religion with equations.

Postmodernity errs in thinking of this as the inevitable failure of all Modernist enterprises. It lambastes economists' churlish reliance on an Outer Wall of Algebra and an Inner Wall of Statistics but overlooks their *success* at never even coming close to the nature and the dynamics of contemporary capitalism, thus shielding the latter from rational criticism. But such is the fate of all idealisms which give language an existence independent of the material conditions of social life and reproduction. If only postmodernist critics understood theology and mathematics a little better! Perhaps they would have recognised in economics the greatest proof that Modernity is saturated with its negation.

Which brings me to the second part of the argument: Postmodernity not only lets neoclassical economics off the hook but, more worryingly, reinforces it copiously before dissolving into it. Consider what the postmodern rejection of metanarratives means at the individual level: It means the loss of any capacity to *scrutinise* one's private urges rationally on the basis of some collectively constructed notion (or metanarrative) of the Good. Stripped of those capacities, the individual fragments into a community of selves, a bundle of ordinal preferences, and ends up with no *one* self whose preferences those are.

In this Empire of Ordinal Preference the only possible data that social theory can go to work with are the differences in individual whims and freely chosen identities. These data are then, courtesy of their ordinal properties, impossible to compare across persons (for this would require a metanarrative) or procure a view of capitalism as a *system*. Thus in a fully-fledged postmodern schema, social relations are confined to interplay, voluntarism, tolerance and exchange; society is

the playground where the latter unfold; and discussions of the General Will, exploitation and developmental freedom make no sense. Does this all sound familiar?

If it does the reason is that neoclassical economics went down that alley decades ago. The asymptotic limit of postmodern fragmentation is the neoclassical general equilibrium economic model. Both Neoclassicism and Postmodernity espouse a radical egalitarianism which is founded on the rejection of any standard or value by which either individual action or the institutions of late capitalism (e.g. the labour and capital markets) can be subjected to rational criticism. In short, whereas the problem with modernist mechanism was that its view of our world excluded value from the outset, the problem with Postmodernity is that it ends up having no view of the world and becomes easy-pickings for a similarly viewless/valueless tradition, one which bears the additional weaponry of intricate mathematics and endless econometric 'evidence'.

For Oscar Wilde the supreme vice was shallowness. For Postmodernity it is the New Jerusalem. Its playfulness allowed it to thrive in the friendlier waters of literary and cultural studies at a time when 'margins' were becoming central and classical stuffiness was going out of fashion. But now postmodernists have entered shark-infested territory. Neoclassical economics, another purveyor of shallowness, threatens to bend them to its will,³ gain strength from them and subsequently reinforce hierarchies more oppressive and totalising than those the postmodernists set out initially to dismantle.

When the IMF dictates its policies to some hapless Third World country, there is a strong whiff of the radical egalitarianism shared equally between general equilibrium and Postmodernity. The same whiff accompanies, and legitimises, the inexorable devaluation of political goods, the vulgar commodification of human bodies and values, the impossibility of conceptualising freedom-from-the-market, the depiction of Central Banks as 'independent' only when under the thumb of financial capital, the confusion of liberty with the freedom to exploit and to demean and, above all else, the portrayal of coercion as *tâtonnement*. Thus Postmodernity unwittingly blows fresh wind in the sails of neoclassicism, the undisputed champion of the deconstructed human agent. While warning us correctly that new authoritarianisms will be born when we get caught up in our own rhetoric, it offers no resistance to the current authoritarianism of neoclassical economics and, more so, the socio-economic system that it serves.

Conclusion: The dissidents' dilemma

When a fresh wave of criticism is unleashed, it picks up along the way pre-existing discontents, hitherto bopping along hopelessly near the surface, and propels them toward the shores of exposure and respectability. Lonely dissidents suddenly find a new 'movement' that will have them. New hope of escaping obscurity is thus born.

In recent years many dissident voices had to adapt themselves to postmodern-speak in an attempt to be 'included' on the postmodern bandwagon. The PAE movement must release such voices from this obligation. Social criticism of economics must reclaim an awareness that to reject the scientific status of economics is not to reject science in general or to espouse postmodernism.

Indeed irony and ambiguity were utilised, long before Postmodernity, by thinkers eager to come to what a more confident past once knew as the truth. To re-establish irony, ambiguity and indeterminateness in the discourse of economists would be a triumph of the spirit. But it would not be a postmodern turn. For the latter has no monopoly on an appreciation of the radical indeterminacy of social processes (as Hegel would be all too eager to remind us) or the importance of not taking our selves, and our theories, too seriously. On the contrary, Postmodernity undermines itself by offering Modernity's most awful purveyor another means of extending its dominance.

So, we have arrived at the dissident's dilemma. The postmodern kernel within neoclassical economics forces a stark choice: Submit to *homo economicus* and model our messy world's

dynamic as if a series of suburban disputes between postmodern neighbours. Or, seek an historically grounded understanding of how systematic patterns of power *and* economics are the joint products of the continual feedback between technological developments and evolving social formations. The difference between the two options is not theoretical; it is ideological. The postmodern turn will be chosen by pseudo-dissidents whose prime interests lie in acquiring a chic image; one that the self-effacing postmodern criticism is good at imparting. The less fashionable option of working towards historically grounded knowledge will appeal to the truly 'unreasonable' dissidents; those driven by an unbending commitment to a rational transformation of society.

Notes

1. Department of Economics, University of Athens, 8 Pasmazoglou Street, Athens 10596 and Department of Economics, University of Sydney, Sydney, Australia. Email: yanisv@econ.uoa.gr
2. Recently, Routledge published a volume on the nexus of Postmodernity with economics edited by Jack Amariglio, Stephen Cullenberg, and David Ruccio (2001). The following thoughts have been extracted from my review of that book (forthcoming in the *Journal of Economic Methodology*)
3. Courtesy of a more sophisticated take on the same type of philosophical shallowness.

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- Varoufakis, Y. (2002). 'Deconstructing Homo Economicus?', *Journal of Economic Methodology*, forthcoming.

Yanis Varoufakis' most recent book is [Foundations of Economics : A Beginner's Companion](#).

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An IgNobel Scandal

Alex Millmow (Charles Sturt University, Australia)

In his play 'The Importance of Being Earnest' Oscar Wilde said of political economy that 'even these metallic problems have their melodramatic side'. That prophecy came true at this year's Academy awards. Apart from the Nobel Prize and the Oscar almost melting into one with the fanfare meted out to the film 'A Beautiful Mind', there was a whiff of scandal with Russell Crowe missing out on a best actor award for his portrayal of John Nash Jr. even though the production did well in all the other major award categories. Nash, who was in the audience remarked that, like the Nobel Prize, there was an element of politics in the Awards. Indeed there was, and not just because Nash himself was a bit lucky to win the Nobel Prize with the Prize-bestowing committee barely convinced about the wisdom of giving it to a schizophrenic mathematician. As Sylvia Nasar, author of *A Beautiful Mind* shows, the committee reluctantly came round to the chairman Assar Lindbeck's view that Nash should be given the award, as Russell Crowe, aka John Nash, put it in a southern drawl, for his 'one truly original idea'. It is often overlooked too that Nash actually shared the Nobel Prize in Economic Science with two mathematical economists, namely John Harsanyi and Reinhard Selten. The fact that the economics community bestowed the prize upon Nash tells us something about what that profession adores, namely, a mathematically driven formalism that basically reduces to second-guessing your rival's gameplan.

Ironically, Nash has openly stated that he is not really an economist. But there is, in all this, an even greater controversy in the Nobel Prize in Economics. It concerns the great English economist, Joan Robinson, who died nearly twenty years ago. Apparently she died lamenting that she was never given the gong. This might come as a surprise because it is alleged that Robinson made clear to the committee that she did not want to be considered for the accolade. An alternative version is that she much preferred 'having a grievance' in not being awarded the prize. It was a mark of distinction not to be given the award. She would, moreover, have been horrified

to be awarded the prize in company with someone with polar views to herself as had occurred in 1974 when the Economics Nobel Prize was, in an ideological balancing act, shared by the Austrian economist, FA Hayek, and the Swedish institutional economist, Gunnar Myrdal. When Milton Friedman was awarded the 1976 Nobel Prize, Myrdal spat the dummy and embarrassed the committee for its overly political decision with a string of denunciations, not least about the merits of having a prize for economic science.

The stormy petrel of Cambridge economics spent most of her life trying to undermine the pillars of neoclassical thought and replacing it with a new critical economy. She failed in that endeavour, but as her *bête noire*, Paul Samuelson, conceded, Robinson was a pioneering theorist in so many fields that she deserved the gong. In 1975 there was immense speculation that Robinson was to be honoured. It was, after all, the International Year of the Woman and there was no more outstanding candidate than Robinson. The gossip in the economics profession was that Robinson was a shoo-in for the prize (McCarty, 2000) To much surprise the Nobel Prize committee overlooked her and continued to do so right up to her death in 1983. To borrow a journalistic cliché, Joan Robinson became, at the stroke of a committee chairman's pen, the best Nobel Prize winner we never had. It is said that sunk costs do not matter, but that decision has cost the profession dear, since surely having not one female in the pantheon of economic laureates does little to inspire one half of the student population to do a major in economics.

How could she have been overlooked? Milton Friedman felt she was 'blackballed' because of espousal of Keynesianism and that it had nothing to do with gender (Feldman, 2000). Arguably it could have been due to her works which were mostly destructive of conventional economic theory and therefore, in the committee eyes, nothing to really build on. Nor was her methodology of the ilk befitting a true deterministic science.

It seems however that Lindbeck, the powerful chairman of the Nobel economics committee was more concerned that the cantankerous Robinson would use the prize to attack mainstream economics or, even worse, publicly refuse it, especially, if awarded for her earlier work, *The Theory of Imperfect Competition* which she had disowned. Unlike many other Prize-winners, Robinson had more than just 'one big thing' to hang her fame on. The consensus was that Robinson would, either way, be too risky. For a while perhaps it helped her cause to establish a more heterodox economics. However, the award of the Nobel prize to a self-confessed left wing Keynesian would have given the Post-Keynesian movement weight as a viable alternative to the mainstream.

In the case of Nash, the Nobel Prize committee sent someone to check to make sure he was no longer receiving messages from extraterrestrials. If the same courtesy had been extended to Robinson in 1982, they would have found her amenable to the idea of getting the award. According to Juliet Schor, a professor of sociology at Boston University who looked after Robinson while she did a semester of guest teaching at Williams in 1982, the *grande dame* of economics was 'terribly disappointed' not to have won that year's Nobel economics prize. Adding insult to injury it went to another Chicago economist and arch polemicist, George Stigler, for his work on deregulation. Robinson apparently desperately wanted to win not so much for the recognition but for the million dollars that came with it. She intended to donate it to the peace movement. One could, therefore, liken Robinson's experience to all those great films and superb acting performances that missed out on an Oscar. However even mainstream economists agree that even in Robinson's time all the titans of the profession have been deservedly rewarded bar her. Whatever the truth behind the failure of Joan Robinson to be honoured by the committee it remains the most mystifying incident in the history of the awards. Mark Blaug, a conservative historian of economic thought has no doubt that Robinson's omission from the list of Nobel laureates is 'one of the most extraordinary acts of academic vindictiveness... in recorded intellectual history' (1985). And, like the Oscars, the Nobel Prize cannot be given posthumously to repair the damage.

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Comment on Bernard Guerrien's Essay

Geoff Harcourt (Cambridge University, UK)

May I comment on Bernard Guerrien's [essay](#) in Issue 12, March 15, 2002 in which he has some disagreement with what he alleges I argued in Issue 11? There I set out what I think is happening in modern mainstream microeconomic theory, for example, that the general equilibrium model is the basis for descriptive analysis of competitive markets instead of being *at best*, as is conceded by the most thoughtful general equilibrium theorists, e.g. Frank Hahn, a reference point. Guerrien says I agree with this. If he had any knowledge at all about what I have argued for many years now, he would not have advanced such a canard. In fact, as with Joan Robinson, I do not even accept the distinction between micro and macro as valid or useful; and I have doubts about whether general equilibrium is a reference point and certainly it is not descriptive analysis.

I also tend to think that game theory may not be that much use in thinking about non-competitive market structures. But I am re-examining this long held view, following re-reading Ken Arrow's masterful obituary of John Harsanyi and his contributions (*Economic Journal*, 111, 2001, F747-52). Minds should never be closed even in your 71st year! (I do not know how old Bernard Guerrien is.)

Guerrien quibbles with my (implicit) description of Akerlof, Spender and Stiglitz's findings as "new", arguing that they are just presenting some very old ideas in a mathematical form. He is right about the latter; but then I never claimed the findings were new. Mainstream economists think it is helpful to establish rigorously by maths, if at all possible, the arguments for conjectures, old and new. I think that there is a limited place for this approach in economics. Moreover, if it helps to illuminate the understanding of people who find thinking in this way useful, no harm is done, provided that this way of proceeding is not regarded as the *only* way of proceeding, and its advocates do not insist on a monopoly. I argued this in my first essay in this review ([issue 6](#)) (and in many other places). Finally, Amartya Sen is a real force for good in our discipline and the award of the Nobel Prize to him is a positive signal, to be embraced, not belittled.

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In Defense of Basic Economic Reasoning

Bruce J. Caldwell (University of North Carolina, US)

In issue number 12 of the *Post-Autistic Economics Review*, Bernard Gurrien poses the provocative question, "Is There Anything Worth Keeping in Standard Microeconomics?" His answer seems to be, "Not much." Gurrien complains about the highly formalized nature of modern microeconomic theory, about the use of assumptions that describe neither the world nor

the actions of the people that populate it. He finds much formal theory useless and irrelevant for helping us to understand how the world works.

I agree with many of Gurrien's criticisms of formal, highly mathematicized microeconomic theory. I disagree, though, with his conclusion that the irrelevance of the theory undermines microeconomics. In my opinion, there is a body of economic reasoning, something that might be called "basic economic reasoning" that can and should be separated out from what might be called "formal microeconomic theory." Much of basic economic reasoning is in fact microeconomic in nature, but it preceded the latter temporally in terms of its development and it does not depend on formal economic theory for its validity or usefulness. It is my contention that basic economic reasoning is truly important. My fear is that if we take Gurrien's advice, we will throw out the standard economic reasoning "baby" with the formal economic theory "bathwater."

I will elaborate on these claims by citing some personal examples. In recent years I have taught both a one semester "everything you want to know about economics" course as well as the principles of microeconomics course to American undergraduates. I use very little mathematics in either course. With the exception of a little algebra for calculating elasticities, all other concepts are handled graphically, with production possibilities curves and supply and demand diagrams being the chief graphical tools employed. Even with this elementary set of tools, by the end of the course students have learned a lot about how the world works. Their education is a practical one, one that allows them to read a paper better and to understand economic issues that are discussed in the news. Of course what I am doing in the classroom is not unique; many other economists do the same things in their own principles courses.

Basically, I use the graphs to tell stories about the world. The graphs alone are useless without the stories, and similarly, the stories lose all focus without the graphs. So, for example, in discussing price fixing we use a supply and demand diagram to distinguish between price ceilings and price supports. When price ceilings are binding, one can expect to see excess demand, or shortages, and one also often encounters such things as non-price rationing, deterioration in product quality, and black markets. With these general concepts, we can then explore such diverse phenomena as rent controls in New York City, black markets for tickets to the theater and sporting events, the use of ration coupons during times of war, lines at gasoline stations in the U.S. in the 1970s (when gas prices were controlled), and the ubiquitous lines that one used to observe in East Bloc countries under communism. The price support diagram is useful for analyzing current policies (like agricultural price supports or the minimum wage law) as well as those that have been proposed (comparable worth policies). Once the concept of elasticities has been introduced, the diagrams can be used to analyze everything from the incidence of taxation to the "paradox of plenty" in agriculture (good growing seasons can lead to a reduction in farmer's revenues if demand for their product is inelastic) to the reason why a successful "War on Drugs" that managed to reduce the supply of illegal drugs would put more revenue into the pockets of drug dealers. (If the demand for drugs is inelastic, a rise in the price of drugs causes a less than proportionate fall in quantity demanded, so total revenue increases.) Production possibilities curves can be used whenever the discussion focuses on opportunity costs and the necessity of making trade-offs.

Basic economic reasoning and simple diagrams can also be used to tell stories that go beyond economics to what might be called political economy. The recent history of agricultural price supports in the U.S. provides numerous insights into how politics and economics interact. In 1996 a law was passed that was supposed to gradually phase out agricultural price supports, so that they would be gone by 2002. In order to induce farm interests to accept the law, payments in the initial years were quite generous. But as we got closer and closer to 2002, and prices for agricultural products began falling (this was exactly what was supposed to happen, of course), farm interests declared a "crisis" in their industry. For the past few years, "emergency" farm legislation was passed by Congress to help agricultural interests survive their "crises." The recurring crises have in turn prompted calls for a "comprehensive" farm bill to deal with the problems on a permanent basis. And sure enough, after September 11 some have begun

referring to the new proposed legislation as a Farmland Security Bill. A few years ago, a dot.com at the end of a company name was supposed to ensure that investors would love it. Now in Congress putting the word "Security" into a bill's name will help to ensure its speedy passage.

Many other examples could be given. The recent decision by the Bush administration to place tariffs of about 30% on steel imports was analyzed in one newspaper under the wonderful byline, "In Big Steel States, the Bush Democrat May Be Born." Ohio, West Virginia and Pennsylvania are major steel-producing states, and the outcome of mid-term elections there may be crucial in deciding who controls the Congress. So again steel has gotten help, even though it is one of the most protected of all American industries: past studies have estimated that it costs American consumers about \$750,000 (in terms of higher prices paid) for every steelworker's job saved. That number will need to be updated in the light of this recent event, especially given that other nations have begun retaliating with tariffs of their own that will further raise the prices that consumers face.

Though basic economic reasoning is simple, it is not simplistic, and indeed, it often leads one to results that are not at all obvious. For example, the idea that the incidence of taxation depends on the elasticities of supply and demand, and not on whether a tax is initially paid by a buyer or a seller of a good, is not at all intuitive, but is crucial if one wants to understand who actually bears the burden of a tax. Similarly, the idea that there can be gains from trade even when one country has an absolute advantage in the production of goods – the fundamental idea of comparative advantage – is not one that many non-economists have mastered.

Some will say that basic economic reasoning is not valid because it rests on faulty foundations – one must assume that agents are perfectly rational, with complete information, trading in perfectly competitive markets to get its results. This simply confuses formal mathematical theory with basic economic reasoning. In my opinion, basic economic reasoning does not depend on formal microeconomic theory for its validity. Now, to be sure, economists have not been very good at identifying just what it does depend on. That is a topic for economic methodology, and over the years various contending views have been advanced. My own intuition is that there may well be multiple "foundations" that help to explain why different parts of the theory may work. In any event, my own confidence in basic economic reasoning has less to do with the fact that I know why it works, then with the fact that it does work: as my examples hopefully demonstrate, it can prove to be extremely useful in organizing and understanding various and often very diverse social phenomena. The proof of the pudding is in the eating, and in this regard basic economic reasoning seems to me to provide much upon which to feast.

There will of course be the complaint of those who believe that basic economic reasoning is simply ideology dressed up as science. For them, to say that "we live in a world in which scarcity makes choice necessary" is an ideological statement; or to assert that "producing goods for which one has a comparative advantage permits gains from trade" is a not-so-covert defense of globalization; and so on. To this I would reply that I think of the statements of basic economic reasoning as being positive rather than normative claims. (This is not to say that they are easily testable claims.) I would further rejoin that those who think that basic economic reasoning is simply a defense of capitalism should look once again at the socialist calculation debate, and in particular at the positions articulated by the defenders of market socialism, or for those who would like to go back further, at the Austrian economist Friedrich von Wieser's *Natural Value*. These economists recognized that an understanding of economic reasoning was necessary even if one was in favor of organizing a socialist economy. As one wag put it on the recent television production of the book *Commanding Heights*, ignoring how markets operate is much like ignoring the winds and the tides – you do so at your peril.

In conclusion, I join with Bernard Gurrien in lamenting the turn of the profession towards microeconomic models of ever increasing formal complexity. Explaining why the profession has gone down this road is something that has increasingly captured the attention of (our ever diminishing number, alas, of) historians of economic thought. But we should not conclude that

microeconomics is of no value. Basic economic reasoning was there before the advent of such modeling, and it remains a powerful tool today for understanding how the world works.

Bruce Caldwell is the author of [Beyond Positivism : Economic Methodology in the Twentieth Century](#).

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Response to Guerrien's Essay

Jacques Sapir (L'École des Hautes Études en Sciences Sociales, Paris)

Bernard Guerrien's provocative paper in PAE Review no. 12 raises some important issues. Along with other heterodoxical French economists I am greatly indebted to Guerrien's frequently illuminating work about neoclassical economics. However, I feel that this particularly recent contribution was ill-conceived and perhaps pointless.

I agree with Guerrien that standard microeconomic assumptions are not relevant. I too criticized them in my *Les Trous Noirs de la Science Économique*. In addition, I agree that the Arrow-Debreu model has nothing to do with a decentralized economy. However, part of Guerrien's argument reveals an unhelpful bias against abstraction itself. One of Spinoza's famous arguments is helpful here. Spinoza taught us that the concept of dog doesn't bark nor bite but the concept of dog is nevertheless necessary to understand a world where real dogs can do both.

Guerrien's misplaced bias against abstraction is very clear when he states that Akerlof, Spence and Stiglitz have no new findings and have simply restated old ideas. Actually what these Nobel Prize winners did was to restate certain ideas at a higher level of abstraction. To return to Spinoza's argument, real dogs may have predated the concept of dog, but such a concept was still necessary and useful in the development of human culture. Unfortunately, the way Guerrien orients his quest for reality throws us back to the nominalism which pertained pre-Ockham.

In addition, rejecting Stiglitz's contribution to the future demise of the current orthodoxy in economics, be it his theoretical one or his political economy one, will not help to achieve the needed breakthrough. The PAE movement would probably not have been possible without Stiglitz's theoretical and political work in the last decade.

To acknowledge the positive effect of Stiglitz's work does not mean agreeing to accept it as offering the limits to change. What is needed is a shift from the information paradigm - plainly positivist - to a new knowledge paradigm. The best way to move forward on this path is probably to destroy, step by step, old microeconomics, and not just to forget them. We now have the possibility of opposing new arguments to every argument voiced by the neoclassical traditionalists. This is particularly true when we compare the traditional way of thinking about individual preferences to what we have learnt during the last two decades (Slovic's preference reversal or Tversky's framing effect). It is also true of our thinking about rationality and, last but not least, about the necessity of making a distinction between signals and information. Actually the information Stiglitz is so fond of does not exist as such. Information is always a processed signal, which means that knowledge predates information and that knowledge is at the center of the paradigm, not information. And don't think that this is just a matter of terminology. If we acknowledge the centrality of knowledge, then trying to collect as many signals as possible can be as detrimental to decision-making as being starved of information. Increasing competition, which is Stiglitz's cure for most of our problems, would then mean a considerable increase in signal gathering that could overwhelm our signal processing ability and lead to bad decisions and imperfect resources allocation.

It is probably important for me to state explicitly that I do not belong to the methodological individualism school. I think we have to reclaim holism but in a non-deterministic framework. To understand that the individual agent is part of a whole does not tell us how and why this agent is making specific decisions. And, if we need and want to understand how agents decide to understand interactions and transactions, then we need to devise some radically new kind of microeconomics. Guerrien's nihilistic stand here does not help us to move forward.

Neoclassical microeconomics has to be taught (in an abbreviated form of course) to allow students to move forward, but also to equip them to understand the language the autistic economist uses. After all, you could never understand history of the XIIth to XIVth Century without a good knowledge of the Catholic dogma, which does not mean you have to believe in it, or even in God.

Jacques Sapir's recent books include [Les trous noirs de la science économique. Essai sur l'impossibilité de penser le temps et l'argent](#) (2000) and [Pays de l'Est vers la crise généralisée?](#) (2000)

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For Guerrien... and beyond

Gilles Raveaud (co-founder of Austisme-Économie, Ecole Normale Supérieure de Cachan, France)

When reacting to Guerrien's text ("[Is There Anything Worth Keeping in Standard Microeconomics?](#)"), one must not forget that he is among the world's best (and perhaps the best of all) specialists of neoclassical theory, in particular in all its technical details and difficulties. This is why listening to what he says is, I think, imperative (and why his best-selling French books need to be translated into English). It is mainly due to his work that many French students know that the general equilibrium theory (GET) describes a highly *centralised* economy, and not a decentralised one as far too many economists, orthodox and not, believe. This is not a trifling detail, but a major point, as it means that GET fails to give an account of how our (decentralised) economies and societies work. The debates on Lange's thesis in the 1930's made this point clear, but apparently it has been forgotten.

Now what is Guerrien saying? He is saying that if one starts studying neoclassical economics as *it is taught today*, one simply never get beyond it. Any economics student can confirm this. Hence the obvious conclusion: one must teach differently. What one is to do precisely remains a matter for debate, as indeed it should because a plurality of viewpoints must be taken into account. But what is certain is that, to start with, one must sharply reduce the amount of time dedicated to neoclassical theories so as to make room for the others. Second, neoclassical theory, like any other theory, should be taught *for what it is* (a depiction of a perfectly transparent and centralised economy where economic agents do not look at or talk to one another, but look only at the prices indicated by the auctioneer) and not taught for what it *seems* to be (a "simplified" picture of a decentralised modern market economy). Approached in this way, the place of maths and "technique" is immediately reduced, as the maths not only do not allow such a presentation but, moreover, prevent it.

There is, therefore, a need to break from the very start (i.e., in first year) from current practices. Indeed, it is a shame for all economics teachers that neoclassical economics is taught in the first year. Why? There are two large reasons. Firstly, this particular persuasion in economics developed *after* many others, and so ought to be taught *after* them (and surely not in first year, where one should present Smith, Ricardo and Marx). Secondly, by covering neoclassicalism first, teachers send the following message to students: "economics has nothing to do with reality. Here

we draw curves and manipulate equations that have no counterpart in reality. And this is not going to change.” So students either do something else (exit) or stay in economics, but do not involve themselves any longer in their studies (passivity). Just ask your students how they make the link between what they are taught and what they read in the newspapers.

So what then? Things being what they are, it is hard to think of ways to bring about such a fundamental change. It requires a total re-direction of current curricula. One step in this direction would be to start with *problems*, not with theories, which would be presented only in so far as they are able to explain these problems. Isn't this a very common definition of any “scientific” activity? Doing this, one would of course dramatically reduce the place of neoclassical economics teaching and research, as Guerrien proposes to do.

But we -- the students in France who started this now world-wide movement for reform -- have frequently pointed out that teachers who define themselves as “heterodox” (in their past or present research) devote most of their teaching time to neoclassical economics, because, as they put it, it is the “core” of the discipline, its “base”, etc. But I appeal to them: please ask yourself and tell us, as we have asked everybody in the economic community for nearly two years now, with not a single answer yet: what is the scope of the relevance of this theory for analyzing current problems, such as, say, the crisis in Argentina or the level of unemployment in France? And please devise your curriculum in consequence. Reality is so complex that no time should be lost by teaching again and again those silly stories about Robinson and Friday. Time hurries on, and room has to be made for intelligence to gain ground on the repetition of empty exercises. In fact, as the recent political events in France indicate, your responsibility in devising sensible curricula (i.e., ones that give clues to the students for understanding the society and world they live in) is not merely a pedagogical and “scientific” one. It also is a moral imperative. And I cannot prevent myself from thinking that those who do not give their students a sensible account of the economic and social realities of our time, so that they can make informed individual and collective choices, bear some responsibility for the ills of today and of tomorrow. Please let me believe that this is just a temporary error, due to a stupid fascination for the “great theory” of the general equilibrium. And not the consequence of ignorance of the realities and debates of our time by those who are supposed to light the way for the future adults of our societies.

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Teaching students of political science post-autistic economics

Poul Thøis Madsen (Aalborg University, Denmark)

Teaching economics to students who are not intending to be economists poses pedagogical questions that are central to the PAE movement. Most especially, a thoughtful teacher in this situation must ask: **What exactly should I teach?** This question, although arising from a situational context, addresses an even broader field of choice than does Bernard Guerrien's question: “Is there anything worth keeping in standard microeconomics?” As a case study, I want to share with you my most recent experience in dealing with this question when in the autumn semester of 2001 I co-ordinated the teaching of economics to 132 second-year political science students at Aalborg University, Denmark.

Choice and use of text books

It was very difficult to choose an appropriate textbook for this target group. Currently, my preferred choice is ‘*Economics*’ by Mulhearn and Vane (Macmillan, 1999) because it is explicitly targeted at non-economist students. Many economics textbooks, even very basic ones, address,

intentionally or unintentionally, students who are pursuing a degree in economics. For our target group, these textbooks rely too heavily on mathematical and graphical representations of economics and focus on the current (or often even rather out-dated!) economic *theoretical* debate rather than the debate on *actual* economic problems.

More importantly, in standard textbooks - intended or not - the students are drawn into an *autistic* world for the sake of being there and not much else. Somehow, teachers and authors of textbooks seem to believe that students who stay within this universe long enough will gradually learn how to analyse actual economic problems and the related debates (which is the basic intention of our teaching). Neither standard textbooks nor standard teaching really address the acute and difficult problem of *linking* the models presented to reality (defined as the actual economic development, the actually applied economic policies and the real life debates on economic issues). In essence, the occasional real life examples in textbooks serve as mere illustrations of the often very abstract arguments presented, thus, serving as some kind of entertainment without becoming an integrated part of the argument. The partly implicit and partly explicit working assumption in text books is that the more formal models presented to the students, the more they will - somehow - be able to understand of the working of the real economy. This is doubtful - to say the least - for many reasons. One important reason is that the assumptions in many models do not survive the meeting with 'reality' as defined above.

What kind of economics to teach?

After years of discussion, the teachers participating in our study have agreed that our students need to learn a few of the basic models (the simple Keynesian model, the Phillips-curve and the Aggregated Supply and Demand curve) but not necessarily by heart. I have argued that it is of central importance to complement this with conscious efforts to teach the students how to apply the models to 'reality'. But applying models to reality is difficult, and attempts to do so all too easily become too abstract. Teachers and the weaker students run the risk of losing the distinction between the model and reality. Most students, however, have an intuitive understanding of the problems of confusing model with reality and, hence, also of the dangers of assuming reality to behave like the model. But although possessing this awareness may make the students very critical, it does not equip them with any tools to cope with the newly discovered complexity.

A preliminary conclusion to be drawn from our experience is that we can help the students by organising our teaching more consciously and directly around *basic economic causalities* (such as: expansive fiscal policy, increased economic activity, increased employment, increased imports). These causalities should be discussed at length. What are the basic assumptions? What is kept *ceteris paribus* and why? How certain are these causalities? What do different economic theories tell us about these causalities? Do the causalities work in any kind of society, for example, industrialised and developing? What are the assumptions concerning the institutional setting? Etc.

The next logical step is to introduce (economic) politics and discuss what possibilities exist for them to manipulate or intervene in economic causalities. This is another obvious occasion for introducing different theoretical perceptions - in this case the limits and possibilities of economic policy.

What would we like the students to learn?

As a consequence of our reforms, we have also changed the way we *examine* the students. Years ago one extreme but common practice during examinations was to make the students derive the simple Keynesian model right from scratch (and, provided the students were very clever, they were asked to do the same exercise with the ISLM-model). For most of our students this took up most of their examination time. And the weaker the student, the more he or she stumbled on their road to - what? More often than not students would not have time to discuss

actual economic policy or the limits of the models (usually teachers claimed that this was the ideal intention underlying this type of examination). In recent years examinations have become much more human (traditionalist economists would say 'lax'), the examination being based on the papers produced by the students. In these papers they apply and discuss the economic causalities most likely to be of actual economic relevance. For example, in a recent semester the students discussed the possible consequences of the economic policies of the new Danish right wing government.

This focus on real life economic causalities, at the expense of time spent on formal models, creates uncertainty for the students and to a lesser extent for the teachers. Despite the shift of emphasis, the models still tend to be seen as 'the state of the art' to be taught by teachers and learned by the students. Consequently, the students expect to be examined on the formal models and they become a bit frustrated and surprised when in the main they are asked to relate the learned causalities to real life instances.

It is also seen by many as easier and fairer to the students to tell them that they will be examined on the formal models. In this way economics becomes one of the few fields within social science at university level in which we are able to state very precisely what is required. Personally, I see this as a weakness – not a strength. To quote Keynes: "It is better to be vaguely right than exactly wrong". Seen from my perspective, teaching the students how to make 'vaguely right' analyses and conclusions should be the basic goal of teaching economics.

My view is that the teaching and learning of models should take up at most 10% of our time. Our students, but also students in general, should learn how to 'think' and in this case to 'think economics'. What does this involve? First of all this is much more diffuse and more difficult than handling rather simplified formal models. Basically, it means learning how to make realistic assumptions and to discuss the possible causalities within the field defined or framed by these assumptions. Moreover, the clever students should also be able to question these basic assumptions. And of course they should learn to consider both the implications of relaxing the assumptions and to discuss the degree of realism of the different assumptions made. Hereby, economics becomes just like any other social science and henceforth also loses its aura of infallibility. This is a very important and not at all hidden part of the agenda underlying the reforms.

Suggested basic content

Summarising, I believe that we should try to teach the students:

- the basic economic concepts
- the basic economic causalities
- the basic economic policies
- the basic features of firstly their own national economy – secondly the international economy (in this order and priority for pedagogical reasons). These features concern the institutional set-up, the kind of economic policies practiced, etc.
- the national debate
- the international debate
- basic economic theories in relation to actual causalities and politics
- and finally introduce them to the world of models.

Thus turning the usual way of doing things upside down.

But – and this is important – they should *not* be taught models for the sake of models. They should be taught models for two reasons:

- to get – a distanced and critical – idea of how economists think.
- as a first step to gaining a critical understanding of major econometric macro-economic models, which could be seen as extended versions of the simple models.

Reactions from the students

According to the most recent evaluation in which 78 of the 132 students responded, we have had some success in our efforts. First, the students have become much more satisfied than previous students. Almost all of the students rate the course as being 'good'. More importantly, almost all of these non-economic students say they have gained an increased interest in the subject of economics. Teachers of economics with experience in teaching students not intending to become economists will know how hard it can be to reach this group.

We have also asked them what they have learned. Here are three examples (my translations):

1. 'I have learned a lot. I can follow the economic political debates.'
2. 'I feel better equipped to understand economics, as it is in the real world'
3. 'I can read a newspaper article and relate it to an economic causality. It feels good'

This is what I understand by post-autistic economics!

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Review of *Intersubjectivity in Economics*

Helge Peukert (University of Erfurt, Germany)

Edward Fullbrook (editor): *Intersubjectivity in Economics: Agents and Structures*.
Routledge: London and New York, 2002. 306 pp.

It should be mentioned at the beginning of this article that the initiative to review this excellent and inspiring book originated with the reviewer (and not the editor of this journal).

The book consists of 17 articles, mainly by French and British, but also American and German authors. The authors adhere to different schools of thought, but they all treat economic agents as intersubjective entities. Taken as a whole, the volume offers a number of different kinds of groundwork for a new theoretical approach to economics intended to capture the social embeddedness of economic actions and the complexity and interdependency of economic agents. In particular, the book investigates the social, cultural and economic structures which these agents construct.

Fullbrook's chapter tries to show that the concept of comparative exchange-value produces paradoxes because it is circular. Frank Ackerman's chapter also tries to demonstrate flaws in the foundations of mainstream economics with respect to consumer behavior and general equilibrium theory. Instead of demonstrating the optimality of market processes, the theoretical debates in the 1970s, especially the Sonnenschein-Mantel-Debreu theorem, proved that almost any continuous pattern of price movements can occur in a general equilibrium model. Ackerman shows that these skeptical results depend, to a large degree, on the less specified and unrealistic assumptions of the traditional model of consumer behavior. "The assumption of asocial individualism in neoclassical economics guarantees that the aggregation problem is insurmountable" (p. 63). Ackerman then presents some ideas for an alternative theory in the tradition of Veblen, Galbraith, Duesenberry and others.

Ralph W. Pfouts' essay also asks for a more complete ontology of the consumer, one that does not ignore the role played by factors like envy and imitation in consumer behaviour. John Davis' article on collective intentionality, on the other hand, operates on a more conceptual and philosophical level. Referring mainly to Tuomela's work, he tries to show that shared intentions exist without any recourse to, for example a Hegelian super-mind. Davis shows that these we-intentions are reciprocally related in a way that re-enforces them.

Geoffrey Hodgson's profound and well-argued contribution also deals with ontological questions, especially with the relationship between methodological individualism and collectivism and the agency-structure distinction, and how Critical Realists (Bhaskar) and Giddens (with the duality of structures approach) deal with them. Hodgson points out that, besides some similarities, some fundamental and often neglected differences with respect to a stratified ontology and the existence and importance of emergent and structural properties must be considered. "Bhaskar thus upheld the dualism of agency and structure that Giddens conflated into his singular, but Janus-faced, 'duality'" (p. 163). But Hodgson criticizes the way that Bhaskar leaves open the questions of how reasons and states of mind are caused.

Paul Lewis and Jochen Runde also argue from a critical realist perspective and contrast it with Kate and Edward Fullbrook's phenomenological intersubjectivist approach as developed in the fifth chapter of their *Simone de Beauvoir* (1998): consciousness is a transitive relation that requires objects for its existence and that is strongly influenced by the observations of other people. Lewis and Runde argue that a strictly intersubjective position with a strong emphasis on mimetic behavior ignores objective societal structures and sets of hierarchical lines, vested interests, etc.

Ernst Fehr and Armin Falk demonstrate that laboratory experiments show the existence of reciprocal fairness, i.e. the willingness to sacrifice resources for rewarding fair and punishing unfair behavior. Usually a significant proportion of actors do not behave like rational egoists. This heartening result of a deviation from pure self-interest is reinforced by S. Abu Turab Rizvi's chapter which, from its history of economic thought perspective, considers Adam Smith's concept of sympathy in his *Theory of Moral Sentiments*.

Anne Mayhew, in an elegantly written contribution, argues that all consumption is conspicuous and explores the consumer's role as a part of a group that seeks to mark outsiders. As Sahlins and Baudrillard underlined, consumption is an exchange of meanings and a discourse that can signal both solidarity and superiority (Veblen).

Roger Mason traces the often ambiguous reflection of status seeking-consumption in economics. He starts with Mandeville, continues with the ambivalent Adam Smith, and then moves on to the severe criticism of J. Rae of such consumption on moral and religious grounds. The approaches to consumption of Cournot, Marshall, Pigou, Veblen and Keynes, as well as the history of the relative income hypothesis, Hirsch's positional goods problem and R. Frank's heterodox approach, are also reviewed and critiqued.

Peter Wynarczyk offers a critique of the Chicago approach (Becker, Stigler) to criminal participation: law establishes a set of prices (penalties) which influence conduct. The author criticizes their view of human beings as pleasure/pain calculators and makes the case for the importance of intersubjective factors in the determination of rates of crime.

Dupuy compares Hayek's and Keynes' concepts of imitation as a basis for an intersubjectively inspired original understanding of the market process in the tradition of the French conventions school (A. Orléan). Without any underlying necessity, self-reinforcing dynamics can be created when two persons A and B imitate each other. Due to a rumor, A believes that he knows what B desires. "A now knows what he needs to desire ... his own action brings the object O of B's attention, and when B manifests in turn his interest in O, A has proof that his initial hypothesis

was correct” (p. 140). What Hayek fails to see but Keynes emphasized, is that imitation may create costly illusions which can considerably destabilize economic systems.

Frédéric Lebaron examines the revival of economic sociology in France, especially the project of the recently deceased Piere Bourdieu. Still another exercise in French sensitivity to the originality of the human mind, the embeddedness of human action and the intersubjective context is Thévenot’s critique of one-dimensional rationality. Fortunately, his *cité*-approach is briefly highlighted in Thierry Levy’s contribution, which applies the theory of conventions to the question of product quality. For Thévenot, every social context is framed. “Correct” framing is difficult because a fundamental uncertainty about (1) the competence of the actors, (2) the set of relevant objects and (3) the mode of their coordination may exist. For example, in the case of a blood donor: the situation can be interpreted in market terms or as a civic action, the donor seen as naïve or generous.

Two contributions deal with (cognitive) network effects as potentials for market failures. Shaun P. Hargreaves Heap argues that people watch TV in part because it is a conversational resource. The demand for a program depends on the number of other program consumers. The key to success is to win an initial audience. This results in a bias for the familiar and sensational, a tendency which could be controlled by regulation. .

Paul Ormerod shows that even slight deviations from market perfection can have implications which lead to results far removed from the standard case of perfect competition. Without the presumption of increasing returns (with constant returns and an undifferentiated product) a strong tendency for oligopolies or even a monopoly may exist when we assume that firms have different levels of cost from the beginning (e.g. due to different management efficiency). This result runs counter to the very common viewpoint that globalization, more advanced information technologies and the reduction of transactions costs lead to an increase in competition.

The importance of Fullbrook’s book in the context of the post-autistic economics movement lies in the fact that it substantiates the criticism of the mainstream. At the same time it offers some new vistas for an alternative research agenda.

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