sanity, humanity and science

post-autistic economics review

Issue no. 19; April 2, 2003 back issues at www.paecon.net

Subscribers: 5,833 in approximately 140 countries

Subscriptions are free, To subscribe, email "subscribe". To unsubscribe, email "unsubscribe". To subscribe a colleague**,** email" subscribe colleague" and give their email address. Send to: pae_news@btinternet.com

Special all-student issue:

Autisme-Économie Reaches Harvard

The student rebellion against unreality and dogmatism in economics that began in France in June 2000, spreading to Cambridge UK and reverberating around the world, has now erupted at Harvard. In recent weeks over 700 Harvard students and alumni have signed a petition addressed to the Harvard Economics Department asking it to approve a new introductory economics course proposed by Professor Stephen Marglin that would cover "a broader spectrum of views", "examine the assumptions of economics", and "challenge students to think critically".

"The point," said Marglin to the *New York Times* (4 March 2003), "is not to substitute one set of biases for another. It's to provide a more balanced approach." The *Boston Globe* (9 March) reported that Marglin's course would "encourage the critique of mainstream economists' assumptions" and that Marglin and Samuel Bowles, now at Amherst, first proposed a similar course at Harvard almost 30 years ago. Students, said Bowles to the *Globe*, would "benefit from knowing that economics, like most sciences, is not a settled doctrine, but a lively and much-debated set of hypotheses."

Daniel DiMaggio, one of the student leaders of the Harvard reform movement, says that Harvard's existing introductory course "is fairly ideological, if not completely ideological. We've been leafleting it with articles that have a different perspective, but we've been hoping that something like this [Marglin's proposed course] would come along. We've had a pretty amazing level of response so far. I've been pretty excited about the number of people who have signed [the petition]."

Michael Y. Lee, the petition's author, says that "there is a strong student demand for an alternative intro economics course. The free market principles that economists worship should also apply to these courses to a certain degree, and right now Ec 10 holds a monopoly on intro courses."

Benjamin B. Collins, another student, says that his main complaint is not the ideological spin, but rather the apathy. "Students just copy down what's on the board", he said. "What excites me about this new class is that Prof. Marglin seems to be really interested in building and teaching a new course that will force students to learn actively. If he succeeds in getting students engaged and thinking critically about not only mainstream economic theory itself, but about the philosophy and history of economics, the problem of bias will fix itself, because students will be forced to think for themselves about economics."

The *Harvard Crimson* reports (17 March) that the university's Undergraduate Council has postponed until April a debate on the proposal for Marglin's post-autistic introductory course.

Meanwhile the Harvard students have issued a "mission statement". It includes the following passage, highly reminiscent of the initial petition from the French students.

> We believe that the field of economics plays a critical role in shaping the basic organizational structure of society and informing policies (both domestic and international) that strongly affect individual welfare. Because of the practical impact of economics, we believe economics education has important human consequences. Economic models are lenses through which students are taught to view how society should function. We believe that Harvard, by only providing one model of economics, fails to provide critical perspectives or alternative models for analyzing the economy and its social consequences. Without providing a true marketplace for economic ideas, Harvard fails to prepare students to be critical thinkers and engaged citizens. We believe that the values and political convictions inherent within the standard economic models taught at Harvard inevitably influence the values and political convictions of Harvard students and even the career choices that they make. Finally, by falsely presenting economics as a positive science devoid of ethical values, we believe Harvard strips students of their intellectual agency and prevents them from being able to make up their own minds.

The Harvard students' full manifesto is available here. Students at other universities wishing to launch similar PAE initiatives would do well to consult this document, as well as the French Students' Open Letter, the Cambridge Students' Proposal and the international Kansas City Proposal.

The Harvard Student Petition

To: The Faculty Members of the Harvard Economics Department

We, the undersigned, believe that Harvard has a responsibility to provide its eight hundred introductory economics students with a more balanced perspective than is currently offered in Social Analysis 10: Principles of Economics, commonly known as Ec 10.

We are therefore delighted that Stephen Marglin, the Walter S. Barker Professor of Economics, has proposed to teach a one-semester alternative introductory microeconomics class. This proposed class will cover the same material as the first semester of Ec 10 and use the same text as Ec 10 does, but it will attempt a better balance and coverage of a broader spectrum of views in the Readings/Workbook. It will also examine the assumptions of economics critically, so that students can assess the limits as well as the strengths of economics. Taken with the second semester of Ec 10, we believe that students would receive a solid introduction to the principles of economics.

We believe that a liberal arts education should not only teach students the accepted modes of thinking, but also challenge students to think critically and deeply about conventional truths. In the spirit of a liberal-arts education, we urge the esteemed members of the Harvard Economics Department to approve Professor Marglin's proposed course.

Sincerely,
The Undersigned

Politics versus economics: keeping it real

Daniel Gay (PhD student at the University of Stirling, UK)

For someone who previously thought of duality as part of the Kama Sutra and the business cycle as an environmentally-friendly way of getting to work, the last year has been a struggle. A struggle not foremost in understanding complicated mathematical techniques and learning theory (although these tasks were far from easy), but a battle to understand why otherwise clever people devoted so much time to limiting their horizons.

Following my British undergraduate education in politics, philosophy and economics I completed a mainstream masters degree in political theory. After a few years as a journalist trying to decode the pronouncements of the dismal science, I returned to university to study a masters in economics. But if I hoped for a clearer understanding of how real people share out scarce resources, I was maximising the wrong function. If I thought I would gain a better understanding of real economies, I was sorely mistaken. If I believed I would at last hear the God *Oikonomos*, I was surely beyond redemption.

Here, I would like to compare my experiences of learning politics and economics as a postgraduate. I found that three features of mainstream economics teaching made it less helpful for understanding real life than political theory: its shortage of rigour, the dogmatic way it uses concepts and its lack of usefulness.

Rigour not figures

Rigour, according to the latest edition of the Oxford English Dictionary, means “the quality of being extremely thorough, exhaustive or accurate”. Usually someone is considered rigorous if they have delved into an issue and thought about every angle, arriving at a conclusion that attempts to tie up loose ends.

Mainstream economics, as is well known, prides itself on its rigour. Applying a general equilibrium approach requires showing with numbers how demand and supply interact simultaneously in several markets to produce prices for all goods. The practitioners of mainstream economics castigate those in other social sciences for “hand waving” and failing to quantify variables. Political theory, like sociology, is particularly vulnerable since many strands of the discipline openly dispute the idea of measuring society. For instance much of Marxism denies the possibility of reducing human society to individuals that can be added or subtracted.

But if political theorists are idle gesticulators, then mainstream economists are invisible hand-wavers. Their version of economics is, in fact, unrigorous because it leaves out so many possibilities. It is not thorough because it mostly analyses only things it can measure. It isn’t exhaustive because it is implicitly bound by an uncritically positivist and strictly utilitarian worldview that precludes uncertainty. It is inaccurate; economists themselves endlessly repeat the mantra that they are no good at forecasting levels – only directions – and often even these are wrong.

And if accuracy is judged by explanation rather than prediction, then many important parts of economics only appear rigorous insofar as they assume their results. For example that jewel in the crown of the new classical tradition – real (surreal?) business cycle theory – simply assumes a close approximation of real economic fluctuations and therefore produces similar predictable output movements to the data. Nelson and Plosser’s well-known test disputing predictable trends in GDP over time might be one part of the argument against government intervention but it surely shouldn’t be considered a conclusive piece of evidence when teaching the theory of economic fluctuations.

If I had handed in a politics essay containing within its argument only the blind empiricism of econometrics, it would have been graded a ‘D’. In politics, years are spent drumming in the need to combine facts, theory and values in the correct combination to achieve a compelling syllogism. Simply pointing out a historical relation between several variables, however complicated the maths, is considered insufficient to prove a case. True rigour is achieved only through a combination of argumentative forms and evidence; empirical, theoretical, epistemological, ontological. To misquote Paul Krugman: a half-hearted cheer for formalism, and reserve the other two for broad-mindedness.

Creative concepts

The analytical pretensions of economics derive in large part from the dogmatic way it uses concepts. Where politics frequently strays into the never-never land of creativity, economics steadfastly sticks to its tried and badly-tested tools. In political theory we read the creative writing of Hilaire Belloc and GK Chesterton for their espousal of community values, or the novels of Jean-Paul Sartre for their subjectivist approach to existentialism, concepts that couldn’t be communicated through standard philosophical works. But in economics we paced the well-worn treadmill of Samuelson, Solow and Sargent – geniuses no doubt, but hardly the free-thinkers of their generation.

Economics sticks to prefabricated concepts because it thinks it is gradually improving its grip on the world. But what it fails to recognise is that the real world is dynamic and elusive, and that understanding it requires an ever-changing and nuanced approach. A variety of human activities that can be described as economic cannot be understood by strictly analytical tools. Does it clarify matters to label the Indonesian exchange rate between 1997 and 2000 – a period during which it swung between 2,500 and 15,000 to the US dollar and back again – by an ageing metaphor borrowed from physics? Or would it make more sense to question and redefine the concept of equilibrium in crisis situations?

Because economics builds up an edifice of analytics, it is simply hard to understand. That is why so many undergraduates drop out early on and take up more intuitive subjects. It is easier to grasp subjects that obviously relate to changing, everyday life. Most of the physical sciences change their views of the world around us, as do the humanities and social sciences. Economics is almost alone in the way it clings so tightly to past ideas. If it was open to wholesale re-evaluation – like physics accepted the quantum revolution – it would be much easier to understand and more popular.

Most students can see straight through the attempts of economists to present the subject as a seamless whole. I remember countless post-lecture whinges: about how if Akerlof and co. say that information is distributed asymmetrically then why does general equilibrium theory assume that it isn't? Or about why many Brander-Spencer type arguments for strategic trade think that assumptions should be realistic, while the rest of macroeconomics argues precisely the opposite.

Not that there's anything wrong with contradiction. Reality is contradictory. The point is that economics would be much more honest explicitly to admit its points of difference, and would arrive at better conclusions if it was creative in its use of concepts. The only compulsory course on my political theory MSc was entitled: "Methods and Controversies in the History of Political Thought." Method, controversies and history are all practices studiously avoided by conventional economic thought. But arguing about and redefining concepts is part of good science.

Useful or toothless?

A lack of rigour and rigid use of concepts might be excusable if economics was useful. It isn't. Even though many students study economics to postgraduate level instrumentally – usually to gain a career in finance – they rarely use the tools they learn. Nobody would become an investment analyst if the strong form of the efficient markets hypothesis were true. Many financial professionals carry at the back of their minds a vague intuition that supply and demand are supposed to equilibriate, and so on, but much more useful is a practical understanding of how real exchange rates move, and of how stock and bond markets work in different countries.

Even some students academically interested in economics grumble about its uselessness. It is an oft-heard refrain that microeconomics is a cosy exercise easily performed in an exam, but trying to pin it down in research is much harder because reality starts to intrude. For me, microeconomics asserted a kind of Stockholm syndrome – in the end I grudgingly indulged my imprisoner. But it was less useful than the techniques learnt in politics.

You might think that political theory was about as abstract as it is possible to be. How can a discipline whose sole intent is – by definition – theory, have anything to offer everyday life? But because political theory is self-critical and pluralistic, it offers tools that are much more useful. Economics may purport to get down to the nitty-gritty details, but because of its rigidity it remains hopelessly stuck in its own nether world of axioms, lemmas and symbols.

Reading the business pages of a newspaper becomes a lot more informative if you have studied Marx's theory of ideology, whereas much of academic financial economics is irrelevant. Michel Foucault's definition of power relations says more about the behaviour of actors within the capitalist firm than does microeconomics. The Weberian theory of legitimacy offers a broad and adaptable understanding of the political state because it doesn't depend on unusual assumptions and can therefore be applied in a variety of situations. As a number of authors have shown, using unrealistic assumptions as an heuristic device often robs economic concepts of real world validity. Students often accuse academics of being out of touch, but it is university economics above all that refuses to engage with the ordinary world.

Conclusions

Of course a lot of economics is realistic. As I have suggested, applying some models from the new trade theory requires realism of assumptions. John Maynard Keynes gives a nod to real people by making uncertainty central to the general theory; the more uncertain agents are, the more likely they are to hold money and the higher the interest rate. Critical realists identify the existence of a deeper level of economic reality of which we can gain open-ended knowledge.

Political theory is only more realistic than economics because of certain features common to all broad-minded sciences – including pluralism and disagreement over certain basic issues. It has no inherent superiority. Parts of political theory can be woolly, distant and difficult to use. It is plainly harder to apply the knowledge of a diverse discipline. The so-called analytical thinking of economics at least has the merit of being able to supply answers, albeit in a limited sense.

But therein lies the problem: reality is messy and difficult to grasp. Usefully comprehending messiness and difficulty requires intuition, an open mind and common sense. And just because a discipline is hard to apply, it doesn't mean we shouldn't try. What are we doing, if not trying to understand real life? Are our ivory-tower proclamations aimed at constructing a cosy scheme that holds internal consistency, or are we highlighting and explaining useful features of real life with a view to changing them?

Rigour, flexibility and usefulness are linked. A discipline must at least show willingness to comprehensively rethink its use of terms if it is to remain objective and rigorous. If it doesn't, it is not as useful as it could be. If it can't incorporate a number of different tools then it is neither fully rigorous nor useful. If it isn't useful, it should surely think again about the concepts it uses. Avoiding rigour, dogmatically adhering to old concepts and forgetting that knowledge must be useful, all ultimately deny realism.

Economics could easily rise from the status of idiot, to idiot savant of the social sciences. And elucidating economics could be at least as rewarding as pontificating about politics. But only when economists remove their blinkers.

Bibliography

Akerlof, G. (1970) 'The Market for Lemons: Quality Uncertainty and the Market Mechanism', *The Quarterly Journal of Economics*, 84: 488-500

Brander, J. and B. Spencer (1985) 'Export Subsidies and International Market Share Rivalry', *Journal of International Economics*, no. 18: 83-100

Foucault, M. (1980) *Power/Knowledge* (London, Harvester Wheatsheaf) (Ed. Colin Gordon)

Keynes, J. M. (1936) *The General Theory of Employment, Interest and Money* (London, Macmillan)

Krugman, P. (1998) 'Two Cheers for Formalism', *The Economic Journal,* 108 (Autumn): 1829-1836

Lawson, T (1997) *Economics and Reality* (London, Routledge)

Samuelson, P. (1947) *Foundations of Economic Analysis* (Cambridge, Harvard University Press)

Sargent, T. (1987) *Macroeconomic Theory* (Boston, Academic Press)

Solow, R. (1956) 'A Contribution to the Theory of Economic Growth', *The Quarterly Journal of Economics,* vol.70, Issue 1 (February): 65-94

SUGGESTED CITATION:
Daniel Gay, "Politics Versus Economics: Keeping It Real", ***post-autistic economics review***, issue no. 2 April 2003, article 1, http://www.btinternet.com/~pae_news/review/issue19.htm

Form and Content in Neoclassical Theory

Asatar Bair (Doctoral Candidate, University of Massachusetts at Amherst, USA)

I find it fascinating that those of us who are critical, in one way or another, of neoclassical economics would accept uncritically a defense of the theory offered by one of its most famous modern proponents. I refer to Milton Friedman's essay on methodology, where he basically argues that the theory should not be judged on the basis of whether or not its assumptions are realistic, but whether it is practical.

This is sort of like saying, since supply and demand analysis explains prices, we can forget about the excesses that are so easy to find in the stringent assumptions necessary to obtain perfect competition and general equilibrium. For example, the omniscient Auctioneer who oversees the exchange of commodities in the general equilibrium model of Arrow and Debreu.

If we accept the terms of this argument, it becomes very simple for the proponents of neoclassical theory to defend it, such as Deirdre McCloskey's defense of the criticisms of Bernard Guerrien in *Post-Autistic Economics Review*, Issue No. 15:

> It just won't do, therefore, to say as Guerrien does that price theory (as we Chicago types prefer to call it) "obviously contradicts almost everything that we observe around us." Huh? When OPEC (viz., Saudi Arabia) cut the supply of oil in 1973, didn't the relative price of oil rise, just as a simple supply-and-demand model would suggest?

Isn't this is a bit like saying "Supply and demand works, so the theory must be correct"? (By the way, I am not attributing this position to McCloskey, a sophisticated and original thinker, who, although committed to the *small-s* science of microeconomics, is also in her own way one of its most ardent critics. This is evinced by her writing not just in the *PAE Review*, but many other places, including the recent volume *Postmodernism, Economics & Knowledge*, edited by Cullenberg, Amariglio, and Ruccio. It is not against the McCloskeys of the world that we must primarily debate, for I believe that if she had her way, the terms of the debate would in fact be much more open.) The point is, there are so many ways to criticize neoclassical theory – why use the criticisms that are the easiest to brush off, simply by reference to already existing arguments?

The issue is not whether supply and demand analysis can be used to explain the movement of prices. Even Marx uses supply and demand analysis to make certain points about the movement of prices. (See, for example his 1865 work *Value, Price and Profit*).

The issue is, what are the assumptions that form the basis of the theory and what are its conclusions? This is deeper than merely criticizing the form of the theory, for neoclassical theory can be formulated without math – see *The Economist* or *The Wall Street Journal* – or with a lot of math – see any graduate program in economics or *The American Economic Review.* To me, the debate in these pages and elsewhere about formalism only scratches the surface. Sure, it's a problem that neoclassical economics tends to be dry as dust because it relies on abstract, formal mathematical proofs, and indeed, sometimes the emphasis on technical minutiae means that even its advanced practitioners can't communicate (or maybe even don't fully grasp themselves) the big philosophical ideas of neoclassical economics. These are the ideas that have been around for a long time. Such as, how can a society maximize its wealth? What is the relationship between economic categories of production, consumption and distribution and the fulfillment of human happiness and human potential? How should we produce things? Does capitalism involve exploitation? And perhaps, the newer question: is there only one correct answer to each of these questions? I will go out on a limb and label these as interesting questions. Unfortunately, they are not often discussed in economics, despite the appearance of some of them on page 2 of most introductory textbooks. Could this absence have something to do with many students' hatred of economics? The proofs and formulae of modern neoclassical theory have not made the questions go away, merely elaborated one position out of many that are possible.

What about pluralism? Is neoclassical economics the truth, and the other theories false? This would be the only position that justifies the exclusion of other theories from economic discourse, but as so many have pointed out, including McCloskey in *The Rhetoric of Economics* or Wolff and Resnick in *Economics: Marxian versus Neoclassical*, such a position is untenable. There simply is no external standard by which to judge the veracity of contending theories.

Instead of looking at the form of the theory, we should look at its content. Any theory can be formalized. Take for example, one of my favorites: Marxian theory. This approach to economics is sometimes formulated in terms of proofs and theorems. What is produced is merely a mathematized version of Marxism. Of course there are many kinds of Marxism, sharing some points of agreement and differing on other points. But despite being formal in the mathematical sense (which may make it rather dry, for those not mathematically inclined), it will still be quite different in its content from neoclassical theory.

My sense is that debates over form and content have been collapsed because many students find both the form and content of neoclassical economics to be objectionable. For example, let's consider one of the central assumptions of the theory: human beings behave in their own narrow self interest. Many of my own students find this idea repellant as a separate matter from their dislike of indifference curves. I happen to agree. There is no reason to assume that there is such a thing as human nature that exists independently of one's culture, language, politics, economic circumstances, etc. Is it not remotely possible that if people seem to often act selfishly it is at least partly due to our societal elevation of greed to a virtue? Isn't it a kind of debasement of human beings to assume the worst of ourselves – indeed, to argue that whenever a human being seems to be acting unselfishly, sacrificing herself for the sake of another, this is really just the same old greed in disguise, charmingly called by microeconomists 'warm-glow altruism'?

Of course, the amusing thing about this assumption – if we accept Friedman's formulation that we should overlook the realism and look at its predictive value – is that it turns out to have very limited value when it comes to actually predicting human behavior. It seems that people are actually quite concerned with the welfare of others, even when it conflicts with their own pecuniary interest, as experimental results have demonstrated. By now these results are well known - perhaps the simplest evidence comes from the Ultimatum Game, in which one experimental subject is given a sum of money, to be divided between himself and the other player, who has the ability to veto the division, in which case both get nothing. Self interest would dictate that the second player accept any offer, because something is better than nothing, and you don't care what the other player gets, because his utility has no effect on your own. Would you pick up a dollar on the street? Then you also wouldn't turn down an offer of a dollar, even if it meant the other player got $999. Well, it turns out people do care, and are willing to give up substantial sums of money to punish the other player's greed.

This experiment is very simple. For God's sake, why wasn't it done in the 1880's instead of the 1980's? Could it be that the assumption of self interest was adopted in part to obtain the grand conclusion of neoclassical economics, elaborated by Adam Smith? Namely: if individuals are free to act in their own self interest and society has established private property and competitive markets, then that society will be guided as if by an invisible hand, to the maximum wealth it can attain.

Forget whether or not this is true or realistic: this is a powerful idea. We want this idea to be true. We want it to be okay to be selfish, to pursue our own goals, and to have it work out that instead of this being inimical to the social good, it ends up being the very same thing as working for the good of society.

So this is my first suggestion: in teaching economics, we should really discuss the meaning of the assumption of self-interest, including its appeal and its limitations, rather than merely adopting it unquestioningly.

My second suggestion is that we should think about and talk about theories of distribution. The neoclassical theory of distribution says that each productive input, for example, labor, land and capital, receives a reward that is equal to its marginal productivity: wages, rent and profits respectively. We should discuss this with our students in a serious way. What does it mean? The implications are clear: provided that markets are competitive, workers, landlords, and capitalists deserve exactly what they get. Each receives a reward perfectly commensurate with his or her contribution to production. You can't get anything more fair than this. Any suggestion that capitalists or landlords exploit or somehow take unfair advantage of their workers or tenants is expunged.

It sure looks good on paper. But it seems to go wrong somehow when applied. Say we are considering the situation of the landholders of European descent in Zimbabwe. They represent 10% of the population, and they own 90% of the land. Do they deserve the rents and profits they obtain, which in neoclassical theory came from the land and capital they contributed to production? How did they come to own this land anyway? Pretty much the same way property rights in land were established everywhere at various times in history: theft accompanied by force.

What about the capitalists? Do they deserve to live off the profits, as my conservative students sometimes tell me, because they take risks, are responsible for workers, work hard themselves, and contribute to the economy? Or more in line with neoclassical economics, because they make the capital that they own available for production, and thus the capital receives a reward equal to its marginal product of capital? This makes sense. I guess the machines, tools, and raw materials that make up the capital really should get a reward. Throw some cash on the lumber pile! Open up the back of the machine and throw in a handful of coins! There you go – and thanks! Or do capitalists receive profits not from the productivity of the capital they own, but because of the unpaid surplus labor they unjustly steal from their workers?

This brings me to my third suggestion, that we discuss and take seriously theories of class. I admit that I am particularly interested in the Marxian notion of class defined as an individual's relationship to the surplus labor performed at a given productive site. This is fertile ground for exploring how production and the class processes therein affect individual development, social and political dynamics, economic fluctuations, and so forth – and how each of these realms in turn shapes the class processes. Not only can class help to illuminate society and the economy in new ways, most of these insights have been excluded from mainstream economics.

The issue – as McCloskey and others have pointed out – is not whether or not the theory is true, so much as does it *persuade*. Neoclassical economics prefers to hide its excesses in math, where people are less likely to understand the role of the assumptions being used. Is it embarrassment?

The dull, stifling formalism of neoclassical economics persuaded many people in its heyday, when more people believed that math equals truth. People are less apt to believe that now, so there can be no more retreating into the safety of proofs with unquestioned assumptions. Perhaps this means we will go back to debating substantive ideas rather than muddling through endless comparative statics. I hope so.

If we want economics to fulfill its promise, to be a serious scholarly field of inquiry that considers all points of view rather than excluding certain theories and approaches on ideological grounds, we must begin in the classroom, at the introductory level. To me, the post-autistic economics movement has made this clear in the most basic way: students have dramatically shown that they are not persuaded by mainstream economics.

References

Cullenberg, Stephen, Jack Amariglio, and David Ruccio (2001) *Postmodernism, Economics, and Knowledge.* New York: Routledge.

McCloskey, Deirdre. (2002) "Yes, There is Something Worth Keeping in Microeconomics", *post-autistic economics review*, issue no. 15, September 4, 2002, article 1. http://www.btinternet.com/~pae_news/review/issue15.htm

McCloskey, Deirdre. (1985) *The Rhetoric of Economics.* Madison: University of Wisconsin Press.

Wolff, Richard D. and Stephen A. Resnick. (1986) *Economics: Marxian versus Neoclassical.* Baltimore: Johns Hopkins Press.

SUGGESTED CITATION:
Asatar Bair, "Form and Content in Neoclassical Theory", ***post-autistic economics review***, issue no. 2 April 2003, article 2, http://www.btinternet.com/~pae_news/review/issue19.htm

Of Textbooks: In Search of Method

Nathaniel N. Chamberland (graduated 2002 from Trinity College, USA)

> Interestingly, within the social sciences there are hierarchical views regarding the efficacy or usefulness of certain disciplines. Economics is not only much more predictive than, say, sociology, but more useful. The more scientific a discipline, the more valued it apparently is. The view of science as technology thus underpins not only the relative valuation of science versus social science, but also of the disciplines within the social sciences. It is an interesting view of the world: one that values the means (science) over the ends (society).
> —Henrietta More from the Summer 2002 edition of *Anthropological Quarterly*

With four drafts already in the trash can, Henrietta More's (2002) article came to pinpoint (by its ambiguity) a question that sat with me throughout my undergraduate experience as a student: *how does economics relate to other academic disciplines while assessing and influencing the economy*?

According to the quote from More above, economics seems to be a popular, means driven, predictive science that takes its object of study to be different than sociology, but is nonetheless termed a social science by course catalogs. Economics is also, we are told, popularly valued for its predictive technology. Quite simply, economics is often identified as a set of tools devoted to determining price (that is, price knows a unit of measure to which all aspects of life are reducible). So why then keep up the charade of broad inquiry and explanation implied by the umbrella of 'social science'? Why not discard the chaff, that is, everything that has little to do with finance? So long as the economy is portrayed as an incredibly broad, although shallow, entity, economics, as an academic discipline, remains relatively simplistic. The mindset of financial study is maintained as a methodology (call it 'mainstream economic theory') and Xeroxed across a burgeoning academic and political territory.

For example, recall the opening pages of any undergraduate textbook. Faced with the task of describing economics, the author(s) relapse into an ahistorical account of *price theory*. Images of swapping apples for oranges, choosing between the production of pizza and robots, instill in the student the belief that they can derive the evolution of both society and economics from that of exchange. Exchange, here, is a pristine term. It knows no history, politics, bloodshed, or lie; exchange is marked simply by numbers and graphs, preferences and supplies. In so doing, economics lacks any kind of deep, causal realism in its account of the economy. Shirking this sort of analysis, the discipline has come to muddle its base terminology (econo*my* and econo*mic*). An economics that reaches for more than financial accounting cannot proceed without reading its own history, accessing it method of inquiry, and articulating its object of study.

Undergraduates certainly do not read books, and rarely an article. Although students and professors alike may confide in these mediums, the thing that drives departments across the USA and made a fixture of every economics course on the way to a Bachelors degree is, of course, the textbook. Where other social sciences have a timeline, *economics has simply a table of contents*. The concepts annunciated in chapters two and seventeen are of diverse origin and intention, but synthesized; historically anachronistic, but timeless; the result of numerous debates between authors and varying fields of study, but codified and distilled into problem sets. The titles of textbooks are simple, saying little more than *Economics* even though the most popular versions are in constant revision and flux: economics is presented as a science of grand architecture and vast consistency. It is not that dissenting pages have not been authored or that thought has gone stale across the globe, but rather that economics constructs its place within the college and within politics by institutionalizing a kind of economics that makes no home for debate.

Now, this paper is written not to implicate ranks of teachers and cow their students, but rather to motion toward the divide between a teachers' own research and seminars with colleagues or small groups of students and the classes required by the department. Caught up in a 'non-profit' institution driven by the market and pride, departments and professors alike reserve endowed chairs and research monies for socioeconomically conservative and conciliatory personages and projects. And perhaps more importantly, the jump from academia to politics is of varying length: that is, one page devoted to the mainstream economic project is not equalized by another directed toward critical realism or institutionalism or what-have-you. Liberalism and critical thought is cast as entertainment, a fantasy kept to one side of reality: Michael More tops book lists and box office ratings, and Martin Sheen plays a president from the left on the smash television program, The West Wing.

It seems to me that these inequalities are propagated by the discipline's ineffectual articulation of the econo*my* and the econo*mic*—the facet of life that has (and has had) to do with production and exchange and the thing which comes to both observe and participate in its unfolding. The 'mainstream' economic project retains its title by restraining the political and educative salience of ideologies (as well as techniques) that impugn the discipline's 'science envy' and, secondarily, a neoconservative allegiance. Simply put, the economic textbook has its finger on the pulse of the community and workplace, all else is academic, peace-nic fluff.

Now, when an undergraduate reads an article from *The Economist* or *The New York Times* as an assignment for an economics course, he or she gleans in a particular way. The graphs, equations, vocabulary, and explanations found in the supported textbook are to be conjured from the article at hand—if nothing else, *they* are there. First of all, the situation depicted is but an excerpt. The institutions, politics, and histories brought to the fore *are relevant only in so far as they can be drawn into a quantifiable relationship with a particular monetary or material variable*. The narrative of the article is rewritten or read as immediately explicable by a concurrently assigned lesson from the economics textbook. Thus, economics visits the economy. Imagine an economics student reading a report detailing Ortega and Associates, an Arthur Anderson subsidiary, undervaluing the Dominican Republic's power facilities by 907M dollars prior to the industries privatization (Enron, et cetera) (Vallette and Whysham 2002). What hope is there for an economics textbook or free-market ideology here? Are we to allow a generation of budding economists to familiarize themselves with the price theory in such a light? No. Of course not. For here, the *economy* is contrary, a rogue, and as a field of study, miscast by *economics*. At once, the motive for profit is depicted as coming unlatched from governmental and market regulations *while subsisting only in their assistance*: Enron could not have conquered (and fallen) without a number of national and international organizations. This line of argumentation is not defeated by the evidence of the criminalization of the white-collar crimes committed herein, but is rather vanquished by the solution which has arisen in the aftermath. As with the IMF and World Bank debacles, economics suggests measures devoted toward *improved transparency*. But what is it that we have come to see? Harvey Pitt steps down, but can the Securities and Exchange Commission institutionalize real change?

An economics that seriously attempts to relate to and progressively impact on the economy, cannot take shape simply by compiling written and jocular support against mainstream economics. There has always been debate within the discipline. That debate must be heard and harnessed. What if undergraduates read a book like Geoffrey Hodgson's *How Economics Forgot History: The Problem of Historical Specificity in Social Science* (2001) or Paul Downward's *Pricing Theory in Post Keynesian Economics: A Realist Approach* (1999)? What if undergraduates engaged with the community, both social and economic, that surrounds their school? Again, it is not that high school, college, or graduate-school teachers necessarily lack the interest or education, but rather the classroom. Courage must be garnered to push toward institutionalizing community or academically heterodox orientations that already exist in students and teachers alike. As economists, we must know both humility and potency; mainstream economics and a neoconservative economy survives this article, yet instigates it and others like it; teachers and students have long been involved progressively and critically in the economy and in academia, yet examples of those lives and thoughts seem horribly new. The economics textbook, both as a medium and by its generally accepted contents, lacks a grasp of the economy that could be afforded by broad readings and community participation.

Works Cited or Influential

Bhaskar, Roy. 1993. *Dialectic: The Pulse of Freedom*. London: Verso.

Downward, Paul. 1999. *Pricing Theory in Post Keynesian Economics: A Realist Approach*. Cheltenham: Edward Elgar.

Fleetwood, Steve. 2001. "Conceptualizing *Un*employment in a Period of Atypical *Em*ployment: A Critical Realist Perspective." *Review of Social Economy*, vol. 59, no. 1. Pages 45-69.

Kuhn, Thomas S. 1996. *The Structure of Scientific Revolutions* [1962]. 3rd edition. Chicago: Chicago UP.

Lawson, Tony. *Economics & Reality*. London: Routledge.

Mirowski, Philip. 1991. "The philosophical bases of institutional economics." Lavoie, Don ed. *Economics and Hermeneutics*. Pages 76-112. London: Routledge.

____ 2002. *Machine Dreams: Economics Becomes a Cyborg Science*. Cambridge: Cambridge UP.

Moore, Henrietta L. 2002. "The Business of Funding: Science, Social Science and Wealth in the United Kingdom." *Anthropological Quarterly* vol. 75, no. 3. Pages 527-535.

Setterfield, Mark. 2000. "Expectations, Endogenous Money, and the Business Cycle: An Exercise in Open Systems Modeling." *Journal of Post-Keynesian Economics*, vol. 23, no. 1. Pages 77-105.

____ 2002. "Critical Realism and Formal Modeling: Incompatible Bedfellows?" Unpublished manuscript

first presented at the Workshop on Realism and Economics at the University of Cambridge in May 1999.
Vallette, Jim and Whysham, Daphne. 2002. "Enron's Pawns: How Public Institutions Bankrolled Enron'' Globalization Game." Unpublished report for the Institute for Policy Studies.
Wolfram, Stephen. 2002. *A New Kind of Science*. Champaign, IL: Wolfram Media.

SUGGESTED CITATION:
Nathaniel Chamberland, "Of Textbooks: In Search of Method", ***post-autistic economics review***, issue no. 2 April 2003, article 3, http://www.btinternet.com/~pae_news/review/issue19.htm

4 New Assumptions for a New Economics

James Bondio (undergraduate at University of Queensland, Australia)

I hope to add to the kindling that has been laid to ignite a new economics. The ideas in this paper are not original but their combination as an economic theory came to me while I was waiting in various airports recently. I have reached this point of view through combining studies in philosophy and history of economic thought, behaviourism, social psychology, sociology, theology, and the beautiful people around me.

I am not an expert at economics and know less of writing theories, but it is my opinion that economics has a noble greater purpose, making people happy, and an economic theory should explain ways to achieve this. At present the theory I am taught teaches profit *maximisation*, utility *maximisation* and (individually summed utilities) social welfare, which are achieved through self-love and greed. Then the fear created by competition forces us to do the best we can for each other to fulfil our selfish motives. My common sense tells me that a society dominated by fear and greed will not be happy and my experiences provide me with enough evidence to believe that selfish and scared people are never happy. The ideas for a new theory that I present here are assembled in an effort to create a more realistic theory, to better understand people's behaviours and decisions, how prices are set and to explain ways people can be happy.

My theory goes something like this: the economy is not made up of individual rational utility and profit maximisers; it is made up of people. Traditionally, what makes human beings as a species different from other animals is two things: the power to reason and the power to communicate through language. We are creatures eternally looking for reason, meaning, and value in everything around us (economics itself is evidence of this) and most importantly in our own existence. If we find meaning and worth in ourselves, then our own existence is valuable and can be appreciated. It is when our existence is meaningful that we are happy. Of course, the greatest human expression of value and appreciation is love. So my first assumption of economic behaviour is:

> **People search for meaning and value in their own existence and everything around them.**

Our ability to communicate value and meaning between each other enables values to be agreed and disagreed upon, reinforced and rejected by those around us, and learnt and taught to those we have contact with. People who communicate to each other (verbally, through body-language, clothing, or anything else that can communicate meaning) create a social group and a social context. Groups can be formal and established or informal, but groups have common and recognisable values and reason. These common values and reasons within a group are referred to as, habits, culture, stereotypes and social norms.

They communicate meaning and value. They exist within friendships, families, firms, political parties, university faculties, religions, age groups, and football teams. My second assumption is:

> **We are all subject to social norms.**

It is the values and meanings we learn from groups and individuals important to us that define what is meaningful. Our values are dependent on the groups we are members of. Group membership is maintained and established with groups that provide and communicate meaning or value. To be members of a group people then adopt what is important and representative of that group, and can be recognised as group members. Being recognisable means an identity has been established, which communicates meaning to others. My third assumption is:

People will adopt the norms of the groups most important to them at any point in time. What is important to people will depend on what context they are in. Different contexts will demand needs that need to be satisfied. Individuals will behave within norms that will satisfy their needs according to a hierarchy. Importantly, people will satisfy their needs within the boundaries of the norms (values & beliefs) of the groups vital to their identities. For example, a strictly Jewish man dying of starvation would not eat pork. The hierarchy operates such that lowest order needs of physical survival must be satisfied, then pleasure needs, self-fulfilment, social fulfilment and spiritual/universal fulfilment, each a higher order of needs. The orders represent levels of personal development. The level that people have reached will determine what they value and consider meaningful. The more developed person experiences a deeper meaningfulness and reason. This fuels our desire to develop. Therefore, my fourth assumption:

> **The importance of groups (and their norms, which are followed) will depend on two, sometimes opposing, forces – personal development and context.**

Those are the basic assumptions I need, thus far, to explain behaviour within economies. I feel that the current assumptions in economic theory should be replaced by a set of assumptions similar to these. I want to direct this paper from here towards explaining how people can behave according to the assumptions, how behaviour could be modelled, and the implications of a theory based on these assumptions. Perhaps, to follow in the footsteps of our ancestors, an example of how the butcher's love provides us with meat is appropriate.

According to these assumptions the butcher can provide us with meat for a number of reasons. The butcher can provide us with meat for his survival, purely out of self-love. His job provides him with income that lets him buy food, shelter and clothing. However, the butcher could do a number of jobs that will satisfy his survival needs. He may choose to be a butcher, over other trades, simply because he finds pleasure in cutting and preparing meats. If the butcher's father was also a respected butcher then the son may have followed his fathers valued footsteps to gain the same self-respect. Further he can provide us with meat because of the pride it gives himself when others recognise him as a skilled tradesman and a hard worker. He may work to support his family. The butcher may love the fact that he can provide fresh food as a source of life and enjoyment for his customers and community, which means he may take extra care in ensuring quality, not just for his own profits, but for the people around him. The butcher can choose to provide us with different meat. He can choose to supply 'free range' chicken, beef grazed in pastures that have not caused deforestation, and non-genetically modified meat because of the values he places on animal life, the environment or god's creation. The butcher can provide us with meat for any number of reasons and loves. Why he does will depend on what is meaningful to him.

How then is this behaviour modelled? I haven't given this a huge amount of thought; however, I think the supply and demand model can remain, with a few modifications. What follows is a list of ideas instead of a structured argument. The simple supply and demand model can no longer be viewed as the relationship between utility and profit according to the axioms of price and quantity. Equilibriums will no longer represent optimal outcomes and equilibriums will only be context specific. Equilibriums could be viewed more as contextual agreements and instead of equilibrium points they could be modelled as intervals. Agreements can be made within the intervals depending on the salience (contextual relevance) of group norms. This is where advertising and salespeople come into play, they attempt to increase the salience of norms that will most benefit sales and prices.

This then gives power to the people who influence norms (group leaders, respected institutions, publications, advertising and media figures). Therefore, there does not have to be perfect competition. Nor does the assumption of perfect information need to be kept, indeed it is because there is not perfect information that we adopt group norms, relying on the perceptions and judgements of each other to guide our decisions (i.e. "if everybody else whom we see as important thinks it is good there must be something good about it."). Hence outcomes are not always optimal and people do not have to be modelled according to subjective expected utility theory as rational economic agents. Nor do firms have to be modelled as profit *maximising* juggernauts. Instead people (on both the supply and demand curves) are behaving in order to achieve something meaningful to find reason so that we have value and can be appreciated by others.

To find what is meaningful we then look to those people we respect and regard as important, and they are determined by our context and development. Therefore if we are to understand the behaviour of different markets, identifiable groups with observable group norms, we can benefit from understanding these processes. Importantly, what order of needs, according to the hierarchy, are being satisfied need to be identified explicitly. I think this is already done implicitly in analysis but is left largely outside of analysis that I have been taught. This would require empirical research out in the wide-open 'playing fields,' finding out why people do what they do. Present theory restricts motivations for behaviour purely to the lower order needs of survival, pleasure and self. If this were true, then everybody would live according to fear and greed – not a happy situation! Progressing the theory in the way I have suggested here means analysis can also include the value and benefit of things greater than our individual existence. This is what my common sense tells me will make the world a happier place, and this paper is the draft of a theory that says the same.

The implications of a theory based on these foundations are many and I am sure to think of others after I have written this paper. But primarily these foundations:

1. bring both consumer and producer analysis together through the analysis of people;
2. require less emphasis on mathematical logic and more on observing reality;
3. shift methodology towards group analysis away from individualism (this is important in explaining group hostility and cooperation, gender, class, societal and cultural characteristics) and;
4. require explicit historical perspectives when analysing the development and emergence of groups and their norms.

Importantly, economics will need to move to analysing actual contexts that groups exist in. We will need to broaden our analysis from contextual factors (e.g. income, welfare, savings, standard of living) to include personal development factors (e.g. education, the family unit, group membership, judgements and perceptions). Economists will need to ensure that the economy creates a context, by including normative analysis and policy, where people are not solely concerned with survival and self, a context where people value each other, our environment, the miracle of life on this planet, the power of love, and the existence of things greater than ourselves. It's time to make economic teachings relevant again.

____
SUGGESTED CITATION:
James Bondio, "4 New Assumptions for a New Economics", ***post-autistic economics review***, issue no. 2 April 2003, article 4, http://www.btinternet.com/~pae_news/review/issue19.htm

Toward a Holistic Economics

Jared Ferrie (student at Simon Fraser University, Canada)

Introduction

We live in an age of extremes. While a small percentage of the world's population enjoys most of its wealth, the vast majority live in poverty. Clearly, there are enough resources to go around; the problem is one of distribution. Douglas Dowd underlines this fact by pointing out "the contrasts between the possible and the actual" (2000):

> "As the twentieth century ended…for the first time in history, existing resources and technology taken together had made it possible for all 6 billion of the earth's inhabitants – now or within a generation – to be at least adequately fed, housed clothed, educated, and their health cared for" (2000).

Like poverty, environmental degradation is nothing new to history, but today's rates, on a global level, are unprecedented. As with poverty, these extremes are spurred on by an economic system based on exploitation. Yet, mainstream economists continually deny this. Dowd points out that, "[a]s this is written, capitalism…and its economic theory stride arm in arm on parade, celebrating their joint triumph, aloof and oblivious to these facts" (2000). It seems a worthy undertaking, then, to examine some of the flaws of mainstream economics and to suggest alternatives. There are many possible starting points for this type of analysis, but I will focus on three conceptual weaknesses that contribute to an exploitative global economic system.

Mainstream economics is fundamentally flawed in its measurement of: (1) the value of labour, (2) the cost of natural resources and (3) the health of the economy as assessed by Gross Domestic Product (GDP). Obviously, solving the world's problems is not simply a matter of juggling economic concepts, but the adoption of a more holistic approach to economics would certainly help to alleviate some of the extreme environmental destruction and inequity we now face.

Overworked and Undervalued

Capitalism's use of cheap labour has a long and sordid history, dating back to a time when industries such as cotton and sugar were built on the backs of slavery. In our era, it is comforting to believe that slavery has been eradicated in all but the most marginal of economies. However, today untold amounts of workers throughout the world are effectively forced, through a lack of other options, to toil under inhumane conditions for subsistence wages.

Predictably, the most undervalued labour takes place in the “developing world”. Much of this labour is used to produce goods for an extremely low cost to be sold at a massive markup to consumers in richer countries. In Mexico, factories that produce such goods are known as *maquiladoras*. The *maquiladora* industry “represented Mexico’s second largest source of foreign exchange after oil, earning the country $3 billion in 1989” (Goldsmith 1996). However, as the industry grew, workers saw the value of their labour shrink even more: “wage levels in *maquilas* – as in Mexico as a whole – fell relentlessly as the numbers employed in them rose” (Ransom 2001). This phenomenon is part of a process that Jeremy Brecher and Tim Costello call “the race to the bottom” (1998).

The race to the bottom refers to the downward leveling of wages on a global scale. The continual integration of the global economy creates competition among countries to offer the lowest production costs. For many countries, their comparative advantage takes the form of devalued labour. However, when a country’s comparative advantage is cheap labour, the main beneficiaries are those who control the means of production, not the workers themselves. Furthermore, as other countries compete by offering even cheaper labour, wages continue in a downward spiral.

While mainstream economists tout the advantages of the free market, many workers find themselves at the losing end of a system that does not recognize the true value of their labour. There are various responses to this, including the suggestion that “a demand for a minimum wage that is 60% of the national average income for the economy would be a good short-term starting point” (Albert 2000). While this would certainly be a more accurate assessment of the value of labour, it is likely that capital flight and the loss of jobs would be the result of implementing such a policy in a given country.

The above example indicates the need to enforce labour standards on a global level. Brecher and Costello stress the role of unions in this process. They point out that “the International Labour Organization…has developed a code [that] would forbid many of the worst U.S. labour abuses” (1998). They maintain that “[a]t the top of labour’s political agenda should be the inclusion of labour rights in U.S. trade policy and all economic institutions” (1998).

Another way to press for the recognition of the true value of labour is through consumer awareness. There has been much work done in this area and considerable advances have been made. One example is fair trade, in which consumers pay a little extra knowing that “fair trade’s higher price goes straight to impoverished countries in the South” (Ransom 2001). While fair trade networks control only a marginal share of a handful of markets, the growth of the movement over the past few years represents tremendous potential. It may be that most consumers are willing to recognize the true value of labour – if they are given the option.

Paying the Price Environmentally

Mainstream economics also fails to accurately assess the true costs of natural resources. Along with cheap labour, capitalist economies have traditionally based their development upon the exploitation of the environment. Mainstream economic theory facilitates this process by viewing resources as gifts of nature rather than factoring in the environmental costs. The current critical, global level of environmental degradation indicates that it is no longer feasible to continue with this line of reasoning.

For mainstream economists, growth is synonymous with a healthy economy. But growth that comes at the expense of the environment has a definite limit. Herman Daly points out that:
“In its physical dimension, the economy is an open subsystem of the earth’s ecosystem,

which is finite, non-growing, and materially closed. As the economic subsystem grows, it incorporates an even greater proportion of the total ecosystem into itself and must reach a limit at 100 percent, if not before. Therefore its growth is unsustainable" (1996).

Robert Goodland concurs, maintaining that "growth has reached its limit" (1996). He argues that "[t]he imperative, therefore, is to keep the size of the global economy sustainable within the capacity of the ecosystem" (1996). The challenge for economists, then, is to adequately assess the costs of natural resources that have thus far been considered free.

Janet Abramovitz suggests that "[o]ne way to estimate the economic value of an ostensibly free service like that of a forested watershed is to estimate what it would cost society if that service had to be replaced" (1998). It is an undeniably difficult task to estimate nature's economic worth, but there has been a substantial amount of research done in this area. Abramovitz points to a study by the University of Maryland's Institute for Ecological Economics. The researchers found that "the current economic value of the world's ecosystem services is in the neighborhood of $33 trillion per year, exceeding that of the global GNP of $25 trillion" (1998). The task at hand is to incorporate this type of knowledge into mainstream economics.

Alan Thein Durning recommends including ecological costs in the prices of goods and services. He believes that "only prices are powerful enough to fundamentally redirect consumption and production patterns", and he suggests a process of "partially replacing existing taxes with taxes on pollution, depletion, and disruption of nature"(1998). This policy would also be supported by "a strong framework of laws and regulations" (1998).

Incorporating ecological costs into the prices of goods and services is a complex matter, but it must be done. The fact that these costs are ignored to a great degree constitutes a gaping hole in mainstream economics and encourages the continued destruction of the environment. Factoring the true costs of natural resources into prices would provide incentives to find environmentally sustainable alternatives. The fact is we will pay and are paying the costs of exploiting the earth's resources, because when the environment suffers, we suffer.

Measuring Success

It takes a certain willful type of ignorance to suggest that an economy is healthy while we face such unprecedented levels of poverty and environmental destruction. Yet many mainstream economists tell us that the global economy, despite its flaws, is coming along just fabulously. Of course, assessing just how well the economy is doing depends to a great degree on where you fit into it. The fact that the pundits of the global economy are generally to be found somewhere in the upper echelons undoubtedly colours their opinions. Another aspect to the incongruence between what is said and what is, is the fact that mainstream economists have a fundamentally flawed method of assessing the health of the economy.

The commonly accepted indicator of the health of the economy is the Gross Domestic Product (GDP). A country's economy is assumed to be doing well if the GDP rises. This is misleading, however, because the GDP is "a balance sheet with no cost side of the ledger; it does not differentiate between costs and benefits, between productive and destructive activities, or between sustainable and unsustainable ones" (Cobb 1996). Thus, the GDP will actually assess an environmental disaster in positive terms. For example, an oil spill will boost the GDP because repairing the tanker and cleaning up the spill requires that money change hands. However, GDP does not account for the cost to the ecosystem or even the social costs that an oil spill may have on industries such as tourism. Nor does the GDP indicate distribution of wealth. In a truly healthy economy, wealth would be spread evenly throughout society. Clearly this is not the case, and measuring the health of an economy in terms of GDP only perpetuates the situation.

Halstead and Cobb suggest an alternative to the GDP. They call it the "Genuine Progress Indicator (GPI)" (1996). The GPI takes into account those factors missing from the GDP including "*resource depletion…pollution…long-term environmental damage…*[and] *income distribution*" (1996) (italics theirs). They believe that "economic change is not likely to come until the nation produces an honest set of books that enables people to see the consequences of policies more clearly than they do now" (1996). Replacing GDP with a more accurate measurement such as the GPI would be a step towards placing value on sectors of the economy that are currently ignored.

Conclusion

Many people today know what mainstream economists ignore. We understand that human society is reaching a critical stage in its evolution. The current levels of poverty and environmental destruction, astounding as they are, are but warnings of what is to come. While optimistic capitalists may place blind faith in technology to remedy environmental problems or free trade to spread the wealth around, the economic system does not provide incentives to achieve these said goals. On the contrary, it rewards those who exploit the world's labour and natural resources and punishes those who do not. Mainstream economists can not continue to ignore this fact.

Douglas Dowd calls "the behavior of today's mainstream economists as, quite simply, shameful" (2000). He contends that "[f]ar from adding to our understanding they have detracted from it; they have transformed economics into ideology supporting and strengthening business" (2000). Dowd poses a challenge to mainstream economists. He suggests that they ask of themselves in regard to the economy, "What must we do to improve its functioning for people, the society, and the environment?" (2000). A step in the right direction would be to take a more holistic approach to economics. Part of this process would involve creating new mechanisms to assess the value of labour, the cost of natural resources and the health of the economy. While a holistic economic theory would not be able to repair our most pressing problems overnight, it would provide a desperately needed framework for change.

Works Cited

Abramovitz, Janet N. "Nature's 'Free' Services" in *The World Watch Reader on Global Environmental Issues*. Eds: Lester Brown and Ed Ayers. New York: W.W. Norton and Co, 1998.

Albert, Michael*.* *Moving Forward: Program for a Participatory Economy*. San Francisco: AK Press, 2000.

Brecher, Jeremy. Costello, Tim. *Global Village or Global Pillage*. 2nd ed. Cambridge: South End Press, 1998.

Daly, Herman. "Sustainable Growth? No Thank You" in *The Case Against the Global Economy*. Eds: Edward Goldsmith and Jerry Mander. New York: Sierra Club, 1996.

Dowd, Douglas. *Capitalism and Its Economics: A Critical History*. London: Pluto Press, 2000.

Durning, Alan Thein. "The Changing World View" in *The World Watch Reader on Global Environmental Issues*. Eds: Lester Brown and Ed Ayers. New York: W.W. Norton and Co, 1998.

Goldsmith, Alexander. "Seeds of Exploitation: Free Trade Zones in the Global Economy". in *The Case Against the Global Economy*. Eds: Edward Goldsmith and Jerry Mander. New York: Sierra Club, 1996.

Goodland, Robert. "Growth Has Reached Its Limit" in *The Case Against the Global Economy*. Eds: Edward Goldsmith and Jerry Mander. New York: Sierra Club, 1996.

Halstead, Ted. Cobb, Clifford. "The Need for New Measurements of Progress" *in The Case Against the Global Economy*. Eds: Edward Goldsmith and Jerry Mander. New York: Sierra Club, 1996.

Ransom, David. *The No-Nonsense Guide to Fair Trade*. Toronto: New Internationalist, 2001.

Sietz, John L. *Global Issues: An Introduction*. 2nd ed. Malden: Blackwell, 2002.

SUGGESTED CITATION:
Jared Ferrie, "Toward a Holistic Economics", ***post-autistic economics review***, issue no. 2 April 2003, article 5, http://www.btinternet.com/~pae_news/review/issue19.htm

Consumer Sovereignty Re-examined: Applications of the Merit Goods Argument

Goutam U. Jois[1] (Undergraduate at Georgetown University, USA)

Economic thinking has traditionally distinguished between public and private goods. More recently, however, a new concept has been introduced into economic thinking, that of merit goods. Economics has generally resisted this new concept. Merit goods, by definition, aim at interference with consumer preference, and this violates the basic assumption of economics: that individual consumers' autonomy and preferences have normative value.[2] However, a survey of the writings of various authors shows that the concept of merit goods is unavoidable in economics. These writers are unable to locate their arguments within the framework of traditional economics, because their prescriptions fundamentally involve interference with consumer preference.

In this paper, I will examine articles by a variety of economists and non-economists. These articles range from economic theory to a feminist critique of philosophy, but they all involve some measure of application of the merit goods concept, implicitly or explicitly. Through this examination, I will show that the concept of merit good must be introduced not only because it is theoretically necessary but also because it is practically unavoidable.

I begin with the article, "Fairness, Hope, and Justice" by economist James M. Buchanan. In this article, Buchanan is concerned with creating a theory of economic justice that derives from a sense of fairness. To effect this fairness, Buchanan says, he will focus on "the distribution of rights and claims prior to or antecedent to the market process itself rather than on some final distribution of the product" (Buchanan 53). Buchanan wants to keep his interference with market mechanisms to a minimum; this is why he proposes interference *prior* to the market process. Even still, he is forced to concede that the "justice" for which he is arguing "necessarily get[s] mixed up and intermingled with pure self-interest" (55). Thus even Buchanan's very limited intervention in the market violates self-interest narrowly defined to some extent.

Buchanan argues that the primary source of "unfairness" or "injustice" in our society is birth (59). Therefore, he proposes the "imposition of what we may call handicaps so as to [facilitate] . . . equality in starting positions" (62). But while he wants to create these handicaps, Buchanan does not at any point want to interfere with the market directly, either with its process or its outcome (e.g., 53). Therefore, he advocates the taxation of asset transfers and public financing of compulsory education (63-4). However, both of these prescriptions do violate market preferences. Buchanan says as much; he admits that his policies "necessarily interfere with the liberties of those person who are potential accumulators of wealth and potential donors to their heirs" (63). And the mandate of education clearly interferes with the preferences of anyone who derives a negative utility from required attendance at school. Since Buchanan wants to "interfere with the liberties" of some, his policy must be considered a merit good prescription.

Examples of merit goods are not limited to explicitly economic examples. In her article, "The Need for More Than Justice," Annette C. Baier describes the shortcomings of a system of ethics based solely on justice (Baier 19). The solution, Baier says, is the introduction of "care" as an ethical system to supplement traditional liberal theories of justice. She contends that women are more likely to have feelings of care, while men generally claimed to take only the justice perspective (e.g., 20, 22, 23). Baier argues that the perspective of caretakers fulfills people's emotional needs to be attached to something. Reciprocal equality, characteristic of contractarian liberalism, does not guarantee this attachment (23).

Baier contends that this attachment (derived from care) is needed for every human being, and moreover, that it cannot be freely chosen in the traditional liberal framework. First, liberalism assumes interaction between equals. More often, care is between unequals: parent and child, doctor and patient, student and teacher (28). Second, the rules of liberalism, guaranteeing basic minima, don't protect "the relatively powerless against neglect, or [ ] ensure an education that will form person to be capable of conforming to an ethics of care and responsibility" (29). Care is precisely *about* looking out for the powerless; it cannot be sustained at merely minimum standards. Finally, liberalism (political and economic) regards action as free choice. A moral theory, however, "cannot regard concern for new and future persons as an optional charity left for those with a taste for it. If the morality the theory endorses is to sustain itself, it must provide for its own continuers" (29). Here we can see the merit nature of Baier's critique of liberal ethics. While Baier's argument is not directly economic, she is proposing a normative framework (of care) that necessarily interferes with individual preferences. Morality, Baier writes, must be "for all persons, for men and for women" — regardless of choice (31); under her system, a mother cannot "opt out" and choose to neglect her children — the ethos is universal.

Another argument that does not facially seem to relate to economics is put forth by Nobel Prize-winning economist Amartya Sen in "More than 100 Million Women are Missing." In this article, Sen describes the current situation in South Asia, West Asia, and China, where the ratio of women to men is less than 0.94, a far cry from the 1.05 or 1.06 ratio found elsewhere in the world (Sen 61). The prevailing explanations for this phenomena are either economic or cultural: that the regions in question are underdeveloped economically or that the cultural context in those regions devalues the role of women (*Ibid*). However, Sen demonstrates that both explanations are inadequate — for example, some underdeveloped regions have higher ratios, and many countries with expanded roles for women have lower ratios (62). Sen contends that some combination of the two is the real explanation: that women are viewed as inferior due to their lack of gainful employment and lack of education (64). To remedy this situation, Sen endorses state funding of public education and public policy that can work to raise the ratio of women to men in these countries (66). It is important to note here that Sen does not want to leave this situation to market mechanisms. His normative prescriptions do not allow for some society to reject the rights of women to be educated and employed. Instead, the policy (particularly of education) is to be carried out even if some derive a negative utility from the policy. Thus, Sen's argument — which seems at first to have nothing to do with economics — is a merit goods argument.

The last argument for merit goods would perhaps seem strongest to classical economists. It is put forth by another Nobel laureate economist, Joseph E. Stiglitz, in his article, "Whither Reform? Ten Years of the Transition." In it, Stiglitz shows the failure of market reforms in Russia. He argues that the transition to a market economy lacked the institutional and legal infrastructure that it needed to take firm root in Russian society (Stiglitz 5). This argument is important because it delineates a clear departure from classical economics. Adam Smith believed that the economic order was natural and would establish itself of its own accord. However, Stiglitz contends that the very reason market reforms failed in Russia was because Western consultants believed that the market could operate without the requisite supporting institutions (3). In Russia, bankruptcy laws and a judiciary to enforce them, entrepreneurship, and capital (financial, social, and organizational) were examples of elements presupposed in a market economy that were effectively nonexistent (4-8). Indeed, Stiglitz is explicit on this point, saying that "a market system cannot operate solely on the basis of narrow self-interest" (8). The interferences in self-interest that Stiglitz argues for are merit goods: the “implicit or explicit social contract[s]” (*Ibid*) to supplement market mechanisms. The “credible and enforced laws and regulations” that are needed to provide the institutional framework for market economics, too, are merit goods (19).

We started this paper examining Buchanan’s view on economic theory: the fairness necessary in starting positions. From this premise, we derived a merit goods argument for taxing asset transfers and financing public education. With the Stiglitz article, we see a merit goods argument deriving from economic *reality*: the harsh failures of market reforms in Russia. As Stiglitz shows, the lack of institutional frameworks to support the free market doomed reforms to failure. The economic order that was to “naturally” establish itself never materialized. The neoclassical assumption — that a fully-functioning free market would arise of its own accord — was proven wrong, because economists failed to prescribe Pareto-suboptimal remedies, even though they were necessary for the functioning of the free market.

The arguments of Baier and Sen are useful to show that interference with the preference mechanism is not limited to facially economic arguments. Even feminist critiques (Baier) and social-cultural studies (Sen) require interference with consumer preferences to address the issues raised. From this diverse range of disciplines, we can see that we must, in certain cases, place normative value upon interference with consumer preferences. This violation of classical liberalism necessitates — theoretically and practically, economically and non-economically — the introduction and acceptance of the new concept of merit good.

Notes

1. The author is a Senior at Georgetown University, enrolled in the Honors Program in Government. He wishes to thank Professor Wilfriend Ver Eecke, Georgetown University Department of Philosophy, for his comments and feedback on this paper.
2. The introduction of the concept of merit good can be found in *Public Finance in Theory and Practice*, by Richard A. Musgrave and Peggy B. Musgrave (McGraw Hill: 1976-1984). Additional commentary on the concept (both favorable and unfavorable), can be found *in Rationality, Individualism, and Public Policy*, Geoffrey Brennan and Cliff Walsh, eds. (Australian National University: 1990), featuring selections by Charles E. McClure, Jr. and John G. Head, to name a few.

Works Cited

Baier, Annette. “The Need for More than Justice.” *Moral Prejudices: Essays on Ethics*, Annette Baier. Cambridge, Mass: Harvard University Press, 1994: 19-32.

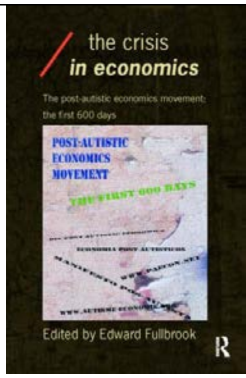
Buchanan, James M. “Fairness, Hope, and Justice.” *New Directions in Economic Justice*, ed. Roger Skurski. South Bend, Indiana: University of Notre Dame Press, 1983: 53-89.

Sen, Amartya. “One Hundred Million Women Are Missing.” *New York Review of Books*, 20 December 1990: 60-66.

Stiglitz, Joseph E. “Whither Reform? Ten Years of the Transition.” *World Bank Annual Conference on Development Economics*. Washington, DC. 28-30 April 1999.

SUGGESTED CITATION:
Goutam U. Jois, “Consumer Sovereignty Re-examined: Apllications of the Merit Goods Argument“, ***post-autistic economics review***, issue no. 2 April 2003, article 6, http://www.btinternet.com/~pae_news/review/issue19.htm

The Crisis in Economics:
The Post-Autistic Economics Movement: The first 600 days



Amazon US
$31.95

Amazon UK
£19.95

Amazon France
EUR 31,10

Amazon Germany
EUR 31,53

Amazon Austria
EUR 31.53

Amazon Japan
4,140

Amazon Canada
$47.34

To be released April 21, 2003

Review Excerpts:

Amazon UK:

"Economics can be pretty boring. Drier than Death Valley, the discipline is obsessed with mathematics and compounds this by arrogantly assuming its techniques can be brought to bear on the other social sciences. It wasn't going to be long, therefore, before students started complaining. The vast majority have voted with their feet and signed up for business and management degrees, but in the past two years there has grown an important new movement that has decided to tackle those who think they run economics head-on. This is the Post-Autistic Economics Network. The PAE Network started in France and spread first to Cambridge and then other parts of the world. The name derives from the fact that mainstream economics has been accused of institutional autism - that is, qualitative impairment of social interaction, failure to develop peer relationships and lack of emotional and social reciprocity. In short, economics has lost touch with reality and has become way too abstract. This book charts the impact the PAE Network has had and constitutes a manifesto for a different kind of economics. It features key contributions from major voices in heterodox economics, including Tony Lawson, Deirdre McCloskey, Geoff Hodgson, Sheila Dow and Warren Samuels."

Anonymous referee

"This volume should be on the nightstand of every economist skeptical of the neoclassical edifice, every policy maker convinced of the limitations of the neoliberal order, any student wanting to pick up on a new academic protest movement, and anyone else just wanting to know what all the noise is about."

"So this book might be a "Report from Iron Mountain" for this generation, a kind of cult classic."

"There is of course nothing like this book, it is unique."

EDITOR: Edward Fullbrook
CORRESPONDENTS: Argentina: Iserino; Australia: Joseph Halevi, Steve Keen: Brazil: Wagner Leal Arienti; France: Gilles Raveaud, Olivier Vaury, J. Walter Plinge; Germany: Helge Peukert; Greece: Yanis Varoufakis; Japan: Susumu Takenaga; United Kingdom: Nitasha Kaul; United States: Benjamin Balak, Daniel Lien, Paul Surlis: At large: Paddy Quick
PAST CONTRIBUTORS: James Galbraith, Frank Ackerman, André Orléan, Hugh Stretton, Jacques Sapir, Edward Fullbrook, Gilles Raveaud, Deirdre McCloskey, Tony Lawson, Geoff Harcourt, Joseph Halevi, Sheila C. Dow, Kurt Jacobsen, The Cambridge 27, Paul Ormerod, Steve Keen, Grazia Ietto-Gillies, Emmanuelle Benicourt, Le Movement Autisme-Economie, Geoffrey Hodgson, Ben Fine, Michael A. Bernstein, Julie A. Nelson, Jeff Gates, Anne Mayhew, Bruce Edmonds, Jason Potts, John Nightingale, Alan Shipman, Peter E. Earl, Marc Lavoie, Jean Gadrey, Peter Söderbaum, Bernard Guerrien, Susan Feiner, Warren J. Samuels, Katalin Martinás, George M. Frankfurter, Elton G. McGoun, Yanis Varoufakis, Alex Millmow, Bruce J. Caldwell, Poul Thøis Madsen, Helge Peukert, Dietmar Lindenberger, Reiner Kümmel, Jane King, Peter Dorman, K.M.P. Williams, Frank Rotering, Ha-Joon Chang, Claude Mouchot, Robert E. Lane, James G. Devine, Richard Wolff, Jamie Morgan, Robert Heilbroner, William Milberg, Stephen T. Ziliak, Steve Fleetwood, Tony Aspromourgos, Yves Gingras, Ingrid Robeyns, Robert Scott Gassler, Grischa Periono, Esther-Mirjam Sent, Ana Maria Bianchi, Steve Cohn, Peter Wynarczyk

Articles, comments on and proposals for should be sent to the editor at
pae_news@btinternet.com

Subscriptions to this email journal are free.

Subscribe a colleague(s) to this journal by sending their email address to
pae_news@btinternet.com

Back issues of this journal and other material related to the pae movement are available at www.paecon.net. And also **GEN** , for global economic news, analysis, opinion, and special reports.

To subscribe to this journal, send an email with the message "subscribe" to
pae_news@btinternet.com

To unsubscribe to this journal, send an email with the message "unsubscribe" to
pae_news@btinternet.com