

sanity, humanity and science

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The Illth of Nations and the Fecklessness of Policy: An Ecological Economist's Perspective

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Our traditional economic problems (poverty, overpopulation, unemployment, unjust distribution) have all been thought to have a common solution, namely an increase in wealth. All problems are easier if we are richer. The way to get richer has been thought to be by economic growth, usually as measured by GDP. I do not here question the first proposition that richer is better than poorer, other things equal. But I do question whether what we persuasively label "economic growth" is any longer making us richer. I suggest that physical throughput growth is at the present margin and in the aggregate increasing illth faster than wealth, thus making us poorer rather than richer. Consequently our traditional economic problems become more difficult with further growth. The correlation between throughput growth and GDP growth is sufficiently strong historically so that in the absence of countervailing policies even GDP growth frequently increases illth faster than wealth.

What we conventionally call "economic growth" in the sense of "growth of the economy" has ironically become "uneconomic growth" in the literal sense of growth that increases costs by more than it increases benefits. I am thinking here of the North rather than the South, because in many poor countries where the majority lives close to subsistence the benefits of production growth, even if badly distributed, justify incurring large costs. But since the South is striving with encouragement from the IMF and World Bank to become like the North, I am not really neglecting the South by focusing on the North.

One will surely ask how do I know that growth has become uneconomic for many Northern

countries? Some empirical evidence is referenced below.¹ But more convincing to me is the simple argument that as the scale of the human subsystem (the economy) expands relative to the fixed dimensions of the containing and sustaining ecosystem, we necessarily encroach upon that system and must pay the opportunity cost of lost ecosystem services as we enjoy the extra benefit of increased human scale. As rational beings we presumably satisfy our most pressing wants first, so that each increase in scale yields a diminishing marginal benefit. Likewise, we presumably would sequence our takeovers of the ecosystem so as to sacrifice first the least important natural services. Obviously we have not yet begun to do this because we are just now recognizing that natural services are scarce. But let me credit us with capacity to learn. Even so, that means that increasing marginal costs and decreasing marginal benefits of expanded human scale will accompany increasing human scale. The optimum scale, from the human perspective, occurs when marginal cost equals marginal benefit. Beyond that point growth becomes uneconomic in the literal sense of costing more than it is worth.

It is interesting to know empirically if we have reached that point (I think we have in many countries), but even if we have not, it is obvious that continued growth of a dependent subsystem relative to a finite sustaining total system will inevitably reach such an optimal scale. If we add to the limit of finitude of the total system the additional limits of entropy and complexity of ecological interdependence, then it is clear that the optimal scale will be encountered sooner rather than later. Additionally, if we expand our anthropocentric view of the optimum scale to a more biocentric view, by which I mean one that attributes not only instrumental but also intrinsic value to other species, then it is clear that the scale of the human presence will be further limited by the duty to reserve a place in the sun for other species, even beyond what they "pay for" in terms of their instrumental value to us. And of course the whole idea of "sustainability" is that the optimal scale should exist for a very long time, not just a few generations. Clearly a sustainable scale will be smaller than an unsustainable scale. For all these reasons I think that for policy purposes we do not need exact empirical measures of the optimal scale. If one jumps from an airplane it may be nice to have an altimeter, but what one really needs is a parachute.

So what policies constitute a parachute? Briefly, they are policies that limit aggregate throughput, the metabolic flow beginning with depletion and ending with pollution, by which we and our economy live. Although market cannot itself set that aggregate limit, it can allocate the limited throughput - assuming the market is competitive and confined to some limited degree of inequality in the distribution of wealth and income. Such policy instruments are evolving now, e.g., cap-and-trade systems for extraction rights, pollution emission rights, fishing rights, etc. Also ecological tax reform limits throughput by making it more expensive. It shifts the tax base from value added (something we want more of) on to "that to which value is added", namely the throughput (something we want less of). In differing ways each of the above "parachutes" would limit throughput and expansion of the scale of the economy into the ecosystem, and also provide public revenue. I will not discuss their relative merits, having to do with price versus quantity interventions in the market, but rather emphasize the advantage that both have over the currently favored strategy. The currently favored strategy might be called "efficiency first" in distinction to the "frugality first" principle embodied in both of the throughput-limiting mechanisms mentioned above.²

"Efficiency first" sounds good, especially when referred to as "win-win" strategies or more picturesquely as "picking the low-hanging fruit". But the problem of "efficiency first" is with what comes second. An improvement in efficiency by itself is equivalent to having a larger supply of the factor whose efficiency increased. The price of that factor will decline. More uses for the now cheaper factor will be found. We will end up consuming more of the resource than before, albeit more efficiently. Scale continues to grow. This is sometimes called the "Jevons effect". A policy of "frugality first", however, induces efficiency as a secondary consequence; "efficiency first" does not induce frugality--it makes frugality less necessary, nor does it give rise to a scarcity rent that can be captured and redistributed.

So far I have briefly outlined what I take to be the problem of the "illth of nations" (apologies to both

Adam Smith and John Ruskin), and indicated some policy guidelines for avoiding the uneconomic growth that increases illth faster than wealth. I probably do not need to tell readers of post-autistic economics that these views do not find favor with mainstream neoclassical economists. The concepts of throughput, of entropy, and even of optimal scale of the macroeconomy are foreign to them. The last is especially odd since in microeconomics the concept of the optimal scale of each micro activity is central. Yet the sum of all micro activities, the macro economy, is not thought to have an optimal scale relative to its sustaining ecosystem. Probably this is because macroeconomists think of the macroeconomy as the Whole, not as a Part of some larger Whole. For them nature is not a containing envelope, but just a sector of the macroeconomy - mines, wells, croplands, pastures, and fisheries. When the Whole grows it expands into the Void encroaching on nothing and incurring no opportunity cost. But of course the real economy is a Part and it grows not into the Void, but into the rest of the ecosystem, and really does incur opportunity costs. I have long considered this Whole versus Part difference to reflect different preanalytic visions (Schumpeter) or different paradigms (Kuhn). Different preanalytic visions cannot, of course, be reconciled by further analysis. I still believe this is fundamental.

Recently, however, my experiences of teaching in a policy school and of dealing with ecologists and biologists as well as economists, has led me to see an additional problem at the level of policy in general. In other words, even if we could agree on the right preanalytic vision of the basic way the world works, would we then be able to enact and follow effective policies, such as the "parachutes" briefly discussed? So far, our capacity to enact policies of "frugality first" seems very weak. Indeed, even "efficiency first" policies are not easy to enact. So let us turn our attention to the question of policy in general, and policy fecklessness in particular.

What are the presuppositions we must make before we can reasonably and seriously discuss policy-policy of any kind? There are two that I can see.

First we must believe that there are real alternatives among which to choose. If there are no alternatives, if everything is determined, then it hardly makes sense to discuss policy--what will be will be. No options, no responsibility, no need to think.

Second, even if there were real alternatives, policy dialogue would still make no sense unless there was a real criterion of value by which to choose from among the alternatives. Unless we can distinguish better from worse states of the world then it makes no sense to try to achieve one state of the world rather than another. No value criterion, no responsibility, no need to think.

In sum, serious policy must presuppose: (1) non-determinism-- that the world is not totally determined, that there is an element of freedom which offers us real alternatives; and (2) non-nihilism-- that there is a real criterion of value to guide our choices, however vaguely we may perceive it.

To be sure, not every conceivable alternative is a real alternative. Many things really are impossible. But the number of viable possibilities permitted by physical law and past history is seldom reduced to only one. Through our choices, value and purpose lure the physical world in one direction rather than the other. Purpose is independently causative in the world.

This seems pretty obvious to common sense--so what is the point of stating the obvious? The point is that many members of the intelligentsia deny one or both presuppositions, and yet want to engage in a policy dialogue. I don't mean that we disagree on exactly what our alternatives are in a particular instance, or about just what our value criterion implies for a concrete case. That is part of the reasonable policy dialogue. I mean that determinists who deny the effective existence of alternatives, and nihilists or relativists who deny the existence of value beyond the level of subjective personal tastes, have no right to engage in policy dialogue--and yet they do! This is my cordial invitation to them to remember, and to reflect deeply upon their option of remaining silent--at least about policy.

Who are these people? In the sciences I am thinking about the hard-line neodarwinists and sociobiologists; in the humanities, the post-modern deconstructionists; and in the social sciences, the evolutionary psychologists, and those economists who reduce value to subjective individual tastes any one of which is as good as another.

No one can in practice live by the creed of determinism or nihilism. In this sense no one takes them seriously, so we tend to discount any effect on policy of these doctrines. We tend to dismiss them as academic posturings. However, we halfheartedly suspect that the many learned people who publicly proclaim these views might be right--and that is enough to enfeeble policy. For example, many people tell me that globalization is inevitable; any attempt to counter global economic integration is futile. If I manage to convince them that it might not be inevitable, the next line of defense is, how do we know that globalization will be any worse than the alternative? We cannot tell, we don't really know that it won't be good for us (because we don't know what is good in the first place), so there is no point in opposing it. Either it is inevitable, or if not then we can have no reason to believe that any alternative would be better. Forget policy, go back to sleep.

Perhaps I can clarify my point by distinguishing four categories based on acceptance or non-acceptance of each of the two presuppositions identified.

- (1) Perennial wisdom (e.g. Judeo-Christianity in the West) - there exist real alternatives from which to choose by reference to objective criteria of value.
- (2) Criterionless choice-- alternatives are real options, but there is no objective criterion for choosing among them. (Existentialist angst)
- (3) Providential determinism--there are no real options, but there is an objective criterion of value by which to choose, if only we had a choice. Fortunately providence has chosen for us according to the objective criterion, which we would not be wise or good enough to have followed on our own. (Theological predestination; technological providentialism)
- (4) Criterionless determinism--there are no real alternatives to choose from, and even if there were, there is no objective criterion of value by which to choose. All is mechanism - random variation and natural selection, as claimed by the hard-line neodarwinists.

People engaged in policy, yet holding to positions (2), (3), or (4) are in the grip of a severe and debilitating inconsistency. Their participation in policy dialogue should be subject to the injunction of "estoppel"--a legal restraint to prevent witnesses from contradicting their own testimony.³ It should be applied in academia as well as in the courtroom!

To summarize: Avoiding the uneconomic growth that is increasing the illth of nations will require clear and forceful policy. All policy, especially such a radical one, requires a belief in both objective value and real alternatives. The fact that many people engaged in discussing and making policy reject one or both of these presuppositions is, in Alfred North Whitehead's term, "the lurking inconsistency", a contradiction at the basis of the modern worldview which enfeebles thought and renders action feckless. If we even halfheartedly believe that purpose is an illusion foisted on us by our genes to somehow make us more efficient at procreation, or that one state of the world is, for all we can tell, as good as another, then it is hard to get serious about real issues. Whitehead noted, "Scientists animated by the purpose of proving that they are purposeless constitute an interesting subject for study". He went on to say that, "It is not popular to dwell on the absolute contradiction here involved".

I think, 75 years later, that it is high time we dwelt on this absolute contradiction. We pay a price for ignoring contradictions--in this case the price is feebleness of purpose and half-heartedness in policy. Citizens really must affirm that the world offers more than one possibility to choose from, and that some choices really are better than others. Determinists and nihilists have a right to exist, but an obligation to remain silent on policy. If hard-line, neodarwinist, deterministic materialists refuse to be

silent, then they should be invited to explain why the survival value of such neodarwinism is not negative for the species that really believes it!

Notes

1 For critical discussion and the latest revision of the ISEW, see, Clifford W. Cobb and John B. Cobb, Jr., et al., *The Green National Product*, University Press of America, New York, 1994. For a presentation of the ISEW see Appendix of *For the Common Good*, H. Daly and J. Cobb, Boston: Beacon Press, 1989; second edition 1994. See also Clifford W. Cobb, et al., "If the GDP is Up, Why is America Down?", *Atlantic Monthly*, October, 1995. See also Manfred Max-Neef, *Economic Growth and Quality of Life: A Threshold Hypothesis*, *Ecological Economics*, 15, (1995), pp. 115-118. See also, Clive Hamilton, *Growth Fetish*, Allen and Unwin, 2003, NSW Australia.

2. By "frugality" I mean "non-wasteful sufficiency", rather than "meager scantiness".

3. estoppel = a bar or impediment preventing a party from asserting a fact or claim inconsistent with a position that the party previously took, either by conduct or words, esp. where a representation has been relied or acted upon by others. (Random House Dictionary of the English Language)

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The Social and Intellectual Organization and Construction of Economics

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Most of the articles published in the *Post-Autistic Economics Review* focus on challenging and/or refuting mainstream economic theory. This tacitly serves as a means of precipitating further thought about economics, and in most cases, also functions as a means of promoting change in the discipline. However, as evidenced by history, be it the notion that the Earth revolves around the Sun, the double-helix model of DNA, or the hegemony of mainstream neoclassical economics today, merely having innovative, or possibly better ideas, does not necessarily equate with the ability to establish immediate scientific and societal acceptance of those ideas, or "truth." Hence, changing economics will be a "social" process, in addition to being a "scientific" process. Or, as per Stephen Cole's (1992) work, economics, like any "science", is comprised of both socially-constructed and "scientific" components. The *Post-Autistic Economics Review* has, and will continue to deal with the latter extensively. I propose to introduce the former to its readership.

My account of the social construction of economics is largely derived from British sociologist Richard Whitley's (1984) seminal work, *The Social and Intellectual Organization of the Sciences*. The crux of Whitley's argument is that, in addition to what they study empirically, scientific fields are shaped and affected by the degrees and types of *mutual dependence* and *task uncertainty* they possess. The next two sections will explain how these characteristics exist and function in mainstream neoclassical economics.

Mutual Dependence

Whitley (p. 88) broadly defined *mutual dependence* as "...the need to adhere to particular standards of competence and criteria of significance in order to reward important reputations for contributions." More specifically, mutual dependence is comprised of two analytically distinct agents: functional and strategic dependence. Economics has high *functional dependence*, as economists generally have to adhere to a dominant neoclassical strategic paradigm to be taken seriously. Conversely, it also has low *strategic dependence*, as due to this consensus, economists generally spend little time arguing over theoretical issues. Hence, most debates about theoretical issues outside of the dominant orthodoxy usually occur outside of mainstream economic forums (such as is the case with the *Post-Autistic Economics Review*).

Whitley (p. 31) also adds that "intellectual fields must have distinctive work procedures if they are to function as reputational work organizations." These distinctive work procedures set the context for self-conscious and self-regulating colleague groups being based "on their power to validate the expertise, and thus mediate the careers of, members (p. 20)." The arcane and esoteric mathematical nature of neoclassical economics is a powerful context, contributing to a very strong, unified organizational discipline, thus influencing both the profession and "science" of economics. Mathematics is not only an effective means of creating scholarly hierarchies, but also makes economic work difficult to comment on (at least in the mainstream economists' domain and language) for non-mathematical economists. This places control over the discipline largely into the hands of the most advanced mathematical economists, while insulating and empowering the discipline as a whole. Social and cultural norms which value abstractness, theoretical complexity, esoteric science and quantification also help make economics trusted, well-supported and respected.

As mutual dependence (which is the basis for much of economics' power and prestige) increases, local and individual circumstances tend to become irrelevant. Hence, it is not surprising that economics tends to privilege abstract thought, shunning context and historically dependent work. There are a number of factors that are indicative of the high mutual dependence in economics. These include:

- The existence of a relatively small, concentrated, theoretical disciplinary core of economists.
- Shunning of cross-disciplinary and heterodox thought.
- Agreed upon hierarchies of competence and knowledge.
- Insulation from the "lay public" and most other academics.
- The existence of a "Nobel Prize", which serves to galvanize the discipline, and confer significant prestige upon economics as a whole in public perception, and upon the winning economists, who tend to further perpetuate the prevailing orthodoxy.

It is difficult to ascertain whether these characteristics are causes and/or effects of high mutual dependence (or each other). Regardless, this complex interweaving of social characteristics is a strong factor helping create, insulate and empower mainstream economics.

Economics and Task Uncertainty

The social sciences are generally characterized by a greater degree of task uncertainty than most of the natural sciences. Laboratory controls and manipulation of research subjects are generally not viable options in social science research. Economists cannot manipulate the behavior of governments, firms and actors in various contexts in order to test and re-test hypotheses about economies.¹ Whitley (p. 120) observes that "...the more paradigm-bound a field is, the more predictable, visible and replicable are research results, and the more limited is permissible novelty." Hence, the degree of task uncertainty in a field is influenced by a socially constructed component, via the social organization of a given discipline, apart from empirical, data-based, or "scientific" considerations.

Whitley (ch. 4) identifies three major contextual factors that influence task uncertainty:

Reputational Autonomy This alludes to the degree to which a given field can adjudicate standards of quality and worthiness without influences from other interests. Mainstream economics is empowered with a very high degree of reputational autonomy. As an example of this, while the government and the lay public are generally unwilling (or unable) to engage in dialogue with academic economists on their own terms, they are willing to be “amateur” sociologists on such issues as inequality and culture. Further, while some social science departments are prone to being subsumed by “topical” or “interdisciplinary” studies in universities, economists are generally immune. In addition, when economists do participate in interdisciplinary work (i.e. for the government), they usually do so “on their terms”, and are consequently more of a “consultant” than “collaborator.”

Concentration over the means of intellectual production and dissemination

Economics has relatively high concentration in journals, paradigmatic thought, prestige and universities. This is in part a result of (or contributor to) its aforementioned high reputational autonomy. As an example of the degree of concentration of intellectual production in the United States, Pieper and Willis (1999: 86) show that 54% of economics faculty at doctoral universities, and more than two-thirds of the thesis supervisors at the 47 top-ranked programs in the United States come from one of the “top ten” schools. These “top ten” schools include Chicago, Harvard, Stanford, and MIT; among the strongest purveyors of highly mathematical neoclassical economics. As Devine (2001) observed, the more famous the university, journal or student, the more likely they are to adhere to the rigid positivism of neoclassical economics. The degree of control these schools have over economic education is well evidenced by a report done by, the Commission on Graduate Education in Economics in the United States, which concluded that “the content and structure of graduate programs is amazingly similar” (Hansen, 1991: p. 1085).

Audience Plurality and Diversity Economics has relatively low audience plurality and diversity, largely due to the practice of conducting esoteric, mathematical research published in academic journals kept largely away from public scrutiny. Economists seldom write books, and if they are written in a publicly accessible fashion, they are often derided as “lacking rigor”, or as mere “Galbraithism.” Further, academic economics is also “shielded” by the fact that most public “economic” debate occurs outside of the academic sphere, far removed from the behavioral assumptions and arcane analyses couched in powerful academic economics journals, and textbooks. This will be discussed further shortly.

All of the above serve to “socially” reduce mainstream economics’ (perceived) task uncertainty, despite the fact that it operates in the complex, contextual realms of the human sciences. This apparent contradiction will be explored in the next section.

Economics as a Partitioned Bureaucracy

Economics is extremely unusual in academia in that it combines the high technical task uncertainty of the social sciences, with very low strategic task uncertainty. Whitley (181) states that this mix should be highly unstable *unless the central core of conceptual orthodoxy is partitioned away from empirical sources of uncertainty*. Hence, privileging theoretical data (informed by the “central core”), at the expense of empirical considerations is a necessary condition for maintaining strategic consensus in the discipline. Mainstream economics does exactly that. As in many facets of economics, there is a clear hierarchy (made possibly by high mutual dependence) of sub-fields in economics, with the more theoretical endeavors enjoying epistemological, and organizational superiority. This occurs both within and outside of economics. Within economics, econometrics, labor, and health economics, and other relatively “applied” work remains subordinated to, and to a certain extent, derivative of the dominant paradigm, couched in the theoretical core of the discipline.

Doing “applied”, or socially relevant work is acceptable to mainstream economists, provided you adhere to the dominant neoclassical paradigm (i.e. Gary Becker). Outside of economics, much “applied” or context-dependent work is actually done in business/finance or other social science departments in universities, and by businesses and governments outside of academia. In the case of business and finance departments using economic theory, there appears to be somewhat of a symbiotic relationship, where business schools use neoclassical economics for a methodological and moral legitimation, while economics gets insulated from empirical concerns and uncertainty that could undermine their strategic consensus, and call the dominant orthodoxy into question. This symbiotic relationship also may help contribute to maintaining (if not reinforcing) the “bourgeois” focus of mainstream economics, which tends to trumpet the virtues of capitalism far more than it criticizes the economic, social and moral shortcomings it may possess.

Concluding Thoughts

John Kenneth Galbraith (1984: 3) remarked that the shortcomings of contemporary economics are not necessarily due to original error, but “uncorrected obsolescence.” Given the intricate tapestry of social, empirical, and organizational factors buttressing mainstream economics today, it is no wonder that the neoclassical paradigm is not evolving with the times or evidence. While the *Post-Autistic Economics Review* illustrates many of the excellent thoughts and debates that, at the very least, challenge the dominant economic paradigm, merely being “right” scientifically and morally, is not sufficient to significantly modify a discipline, especially one as powerful and entrenched as economics. Not only does Whitley’s model help explain why mainstream economics is so powerful (in addition to factors extraneous to his model, such as bourgeois ties and values), but also how it can remain so in the face of inconsistent empirical evidence. Although I cannot profess to know the best strategy for reforming economics, knowledge of the social construction of “science” and “economics” should be a vital part of constructing any such strategy. As opposition to mainstream economics burgeons, it should be kept in mind by such dissenting groups that scientific change is not entirely a “scientific” endeavor. This could aid the construction of strategy for social and scientific change, both in academic and lived realms, as the two are inexorably linked.

Note

1. This limitation also characterizes the natural sciences to varying degrees, especially biology.

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Seven Theses for a Theory of Realist Economics*

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In **Part I**, which appeared in the last issue, Jacques Sapir argued that post-autistic or realist economics needs to develop a coherent research program. To this end he proposed to offer seven theoretical theses and introduced the first four.

Thesis 1: The central issue in economics is the co-ordination of decisions and interactions generated by decentralised, heterogeneous and interdependent agents whose decision-making abilities are constrained by limited cognitive capacities.

Thesis 2: If money is a necessity in an uncertain world, money also introduces a specific form of uncertainty, casting doubts on the market's ability to efficiently process information.

Thesis 3: Time and money are at the very heart of the interchange between the individual and collective levels.

Thesis 4: Any attempt to negate the theoretical status of time and money leads to non-scientific assumptions and transforms the economist himself into a producer of ideology.

Part II: Theses Five to Seven

Thesis 5: To regard money as the one central institution in a market economy fails to break free from the neo-classical framework. Emphasizing only money could be as theoretically misleading as ignoring money.

It is clear that understanding money's relevance is a cornerstone of economic theory. Yet this position can evolve into a mistaken one no less dangerous than the neo-classical denial of money's relevance: monetary essentialism. It is the path taken by two French authors with whom otherwise I generally agree, Michel Aglietta and André Orléan, the latter a well-known and long-standing PAE contributor. Because they claim to have developed a workable alternative to the money denial strategy favoured by neo-classical and some Marxist authors alike³⁴, an alternative giving monetary policy and Central Bank independence a strong legitimacy, monetary essentialism is worth serious investigation. As a matter of fact, if one could demonstrate that money is as pivotal as monetary essentialism pretends it is, then one would have a pretty good argument for asserting the superiority of monetary authorities over political ones.

Monetary essentialism moves beyond acknowledging money relevance against the neo-classical cum monetarist tradition to the point of proclaiming money the central, pivotal, market economy institution³⁵. It acknowledges the fact there is a deeply entrenched violence in monetary relations which cannot be reduced to just an allocative process. Monetary essentialism is innovative in its aim of linking economics to anthropology and it is grounded on what Aglietta and Orléan call the Fundamental Girardian Theorem from the French catholic philosopher and anthropologist René Girard³⁶.

Years ago Girard developed an anthropological theory of violence that he opposes to one emphasizing the social roots of conflicts. His theory is grounded on the genesis of violence erupting from an undifferentiated mob driven by a demand for wealth. This word resonates in the economist's ears. However in Girard's works wealth is an all-encompassing notion running from material goods and money to social status and parental love. Because it is such a global, all encompassing notion, it makes it possible to conceive of a universe of one-dimensional choices where "wealth" is the measure of everything. This conception resembles the neoclassical concept of price which is supposed to carry all needed information. In a Girardian world an economist would be, to paraphrase Oscar Wilde, a cynic who knows the wealth of everything and the value of nothing. In this universe of one-dimensional choices, individual preference transitivity could then be logically demonstrated and the neoclassical theory of preference and rationality given a new rationale. One could then forget that in the real world, and specifically when money is at stake, it has been demonstrated that violations of transitivity are systematic³⁷.

It is, however, perfectly clear that the Girardian genesis of violence is no less unrealistic and anti-social than the Robinson Crusoe metaphor that Austrian marginalists were so fond of. All the perfumes of Girardian wealth could not sweeten the neo-classical price. Aglietta and Orléan run into a serious contradiction. Admirably they profess their willingness to break with the neo-classical logic. However as they pretend to reject the view of a fully determined world - a position I completely share with them - they fall into another fallacy, the one of pretending that there are no so central rules but money. To do so they have to stick with violence as understood by René Girard³⁸. Then they have to pretend that there is no stable social relation between agents, that they are un-socialised social actors³⁹. This is one dimension of the neoclassical fallacy. The so-called Fundamental Girardian Theorem is supposed to say that unanimity could be the result of a spontaneous convergence, hence the undifferentiated demand for wealth could give birth to a global social agreement. However Orléan remarks with some ingenuity that if we introduce one differentiation level in the primitive wealth-driven population then unanimity is no longer a spontaneous result⁴⁰. Change here unanimity for equilibrium and you would have an exact restatement of the Grossman-Stiglitz paradox⁴¹. The Girardian Theorem's sensitiveness to heterogeneity is another proof that it is a next of a kin to the neo-classical equilibrium and Girardian wealth to Walrasian price. Anyone here cruel enough into introduce in the picture the endowment effect and the framing effect would lead the Girardian Theorem to its self-destruction and monetary essentialism to its methodological collapse.

What is problematical with monetary essentialism is not its emphasis on violence or its attempt to link economics to anthropology. The problem lies with the anti-social anthropology that it mobilises, a theory leading not to a definitive break with neo-classical orthodoxy but to the reverse, a return toward typical neoclassical simplifications and methodological unrealism.

Thesis 6: The idea that there is one pivotal institution for a market economy is devoid of meaning. Institutions cannot be assessed in isolation. What matter are institutional systems or precisely defined hierarchical clusters of institutions.

If money cannot be seen as the central institution of a market economy, then maybe property rights could be seen as an alternative⁴². After all, without property rights it is difficult to understand market transactions. However when one discusses property rights it is frequently private property which is at stake. But, as explained years ago by Richard Nelson, private property does not work as an operational concept enabling us to delineate differences between forms of social organisation⁴³. To oppose private to collective ownership is to run quickly into an interesting, if frequently forgotten, paradox.

If property rights are to be defined inside a society, then we have more than one economic agent to think about. Hence, what agent (a) is doing could affect in an unintentional way the wealth and position of agent (b). The latter could sue the former who then would think twice before doing

anything if the penalty were significant by comparison to the expected result from his own action. This is nothing more than a restatement of the Shackle Paradox, explaining that decentralised decision-making gives birth to uncertainty and that uncertainty could prevent decentralised agents from making decisions⁴⁴. To prevent unintentional effects from paralysing the whole social life, every society has developed a different set of rules for actually constraining our individual freedom to use and abuse our properties. Rules, without which no individual action is possible in a society, are nothing less than collective property rights. Hence, individual property rights can't exist without collective ones. And if to avoid this problem we attempt to define individual property rights from the Robinson Crusoe metaphor, then we define something that does not exist. Before the landing of Friday, Robinson, alone on his island, owns everything that is nothing. Property rights here have no meaning.

Private and collective property rights can't be opposed and are actually closely integrated. But, if we have to think about collective ownership to understand private ownership then it is mandatory to think about the way human collectivities are organised. Political issues (how legitimacy and legality interact) matter then as much as property rights. They cannot be substituted for money as the pivotal market economy institution, and I hope that this discussion had made a case against the whole idea of defining any "pivotal" institution.

Let us now return to the problem of money. We have to reckon with the fact that barter trade can exist simultaneously with money, meaning that there is more to be considered than just the fact that money is a more effective and rational transaction medium than barter⁴⁵. The development of barter trade in Russia from 1993 to 1998, a period when inflation was actually decelerating (barter was at its highest point early 1998 when inflation was down to 12% a year), raises an important theoretical issue. The use of money receded not because the value of money was disappearing as happens during a hyperinflation crisis (remember Weimar and the wheelbarrows full of banknotes) but because institutions, without which money cannot be used, were missing⁴⁶. The development of barter trade in Russia was the result of a lack of financial institutions, the result of the liberal monetary policy implemented from October 1993 onwards⁴⁷. It was also the result of a lack of trust⁴⁸ resulting from the weakening of State institutions through the particular privatisation process then implemented by Anatoly Chubays and his US crony advisers⁴⁹. Money, as an institution, needs both technical institutions (mostly in the finance sector) and political ones to support it and make it effective. In turn, after the August 1998 crash, barter receded not because of any hard monetary policy (actually inflation rose) but because Primakov's government worked hard to rebuild state legitimacy and institutions⁵⁰.

Money can be relevant when two specific freedoms or rights can be found in any transaction: the freedom to engage in a transaction with whom one wants and the freedom to engage when one wants. Both these freedoms do not exist for every possible transaction. Sometimes technical constraints drastically reduce the first one, so that vertical integration, that is the substitution of a hierarchy for a market, is then the logical evolution. And social constraints can reduce both the first and the second freedoms. In any case, these freedoms or rights imply a whole set of institutions which, in turn, defines the place and form money can take at a given time in a given market economy.

The central issue is then not the functionality of a single institution but how institutions in a given set can be mutually supportive. In the end it is the coherence level achieved by the institutional system that is the analytical key of statistical stabilities and medium-term trends. When money is at stake, it is the coherence (or the lack of) between managing institutions (central bank, financial markets, banking system, international financial institutions) and related ones (public regulations, labour-management relations, balance of property rights between individual and collective ownership, institutional forms of the social protection system, regulation of human, material and financial trans-border flows) which really matters. The coherence issue, be it static or dynamic, is then the central one for realist economics.

Thesis 7: The embeddedness of any institutional system in a given territory, itself a social and historical construction, is an omission of mainstream economics that is hidden behind the denial of time and money relevance.

Time and money have led us to institutions. Not just the usual discussion about institution functionality but to the understanding that an institution cannot be considered in isolation. Institutional systems, coherent and hierarchal sets of institutions, are the main issue. Rejecting the functionalist fallacy about institutions means also rejecting any functionalist understanding of the birth of institutions⁵¹. The Hayekian view of spontaneous selection raises many methodological and theoretical problems. Among them the two most vexing are:

- (a) the Hayekian selection process introduces a methodological holism dimension into an otherwise individualist theory (institutions are selected through groups) and
- (b) that without assuming temporal monotony of individual preferences it is impossible to prove that selection has not been accidental unless one assumes a stationary universe.

Up to now the only realist theory of institution generation has been François Guizot's. Social conflicts of opposing human groups have been the historical process of institutional development and selection⁵². The dynamic of these conflicts develops in the space of sovereignty, which is then shaped by the development of conflicts. Such a process makes the distinction between rules and the principles on which rules are founded a pervasive necessity.

Social density implies the necessity of rules, as individual agents are unable to forecast all possible unintentional effects of their own actions. This makes them unable to write complete and perfect contracts. Contract incompleteness and imperfection make rules a necessity. Institutions generate rules but individual institutions are incomplete as shown above. To make institutional systems work in a coherent way, rules of a greater magnitude are needed. They are laws as produced by political institutions. But the human agent's inability to write complete and perfect contracts applies here too. It is then to be expected that laws are to be contested even if the process under which they have been produced has respected its own rules. Hence, the rule of Law is not enough or we have to prove that the concerned human community is perfectly homogeneous and composed only of people driven by the best set of sentiments possible⁵³. The emphasis put on the rule of Law, as in the British and American mainstream tradition, reveals a deep negation of the heterogeneity principle⁵⁴.

The legality of the process does not confer to a law the legitimacy it needs. Legitimacy proceeds from principles, which characterises a political community which, historically, is territorially defined. In turn one can see how the neo-classical view of a perfect information world is congruent to an understanding of institutions reduced to their functionality and to the negation of the legitimacy principle for the sake of making the rule of Law the one and only one benchmark⁵⁵.

If we agree to the fact that economics is not a natural science, and to the contrary that economic processes are embedded in social and historical construction, then the institution building process is as much political as it is economic. It cannot be understood separately from links between a given territory and a political community. Even in the globalisation age, Nation-State matters. It matters when it exists as well as when, weakened by decades of neoliberal policies, it is no more able to play its part. The difference between the way Malaysia rode the financial storm in 1998 when Indonesia sank is not just a difference between a wise and an unwise economic policy. The Malaysian state was still functional whereas the Indonesian one had been dramatically weakened. Malaysian economic and political elites were then in a position to resist the IMF policy and implement effective decisions (like the currency control) when Indonesian elites were so fragmented and deprived of legitimacy that they had to abide by IMF prescriptions with their usually catastrophic results⁵⁶.

If institutional systems cannot be understood in a dynamic way without including in the picture the way space has been shaped by centuries of social and political processes and conflicts, economics has no meaning but the one of political economy. This political economy needs to seriously address the Nation-State issue as well as the fact that every Nation-State is not fully homogeneous and that institutional differentiation can be found inside their own perimeter. Institutional differentiation inside a given Nation-State can explain why regional competitiveness is frequently different and why some regions develop faster than others do at a given time. In turn this can be understood only on the basis of acknowledging the social dimension of any institution, including given sets of markets. The development of an effective market economy ("effective" and not "efficient" because out of the neo-classical theoretical frame this word is devoid of meaning) always is the result of a given social process. Markets are socially constructed objects⁵⁷. The development of regional sciences is then a logical and necessary addition to a comprehensive research program for realist economics⁵⁸.

Notes

34. M. Aglietta et A. Orléan, *La Violence de la monnaie*, PUF, Paris, 1982; Idem, *La Monnaie entre violence et confiance*, Odile Jacob, Paris, 2002. Both authors explicitly state their theory is not just a refutation of neo-classical assumptions but also of the Marxian Theory of Value.
35. M. Aglietta et A. Orléan, *La Monnaie entre violence et confiance*, op.cit., p. 81.
36. A. Orléan, "Monnaie et spéculation mimétique" in P. Dumouchel (ed.), *Violence et vérité autour de René Girard*, Paris, Grasset, 1978, pp. 147-158.
37. L. Ausubel, "The Failure of Competition in the Credit-Card Market", in *American Economic Review*, vol. 81, n°1/1991, pp. 50-81
38. M. Aglietta, "L'institution de base des sociétés marchandes" in *Alternatives Économiques*, n°57, 2003, p. 32.
39. A. Orléan, "Monnaie et spéculation mimétique", op.cit., p. 148.
40. A. Orléan, "Monnaie et spéculation mimétique", p.151 and 152.
41. S.J. Grossman et J.E. Stiglitz "On the Impossibility of Informationally Efficient Markets" op.cit..
42. O. Hart et J. Moore, "Property Rights and the Theory of the Firm", in *Journal of Political Economy*, vol. 98, n°6, 1990; E.G. Furubtn et S. Pejovich, "Property Rights and Economic Theory: a Survey of Recent literature", in *Journal of Economic Literature*, vol. 10, 1972, n°4.
43. R.R. Nelson, "Assessing Private Enterprise: An Exegesis of Tangled Doctrine", in *Bell Journal of Economics*, Vol. 12, n°1/1981, printemps, pp. 93-111.
44. G.L.S. Shackle, *Decision, Order and Time in Human Affairs*, Cambridge University Press, Cambridge, 1969.
45. This opinion has been developed in A. Alchian, "Why Money?", in *Journal of Money, Credit and Banking*, vol. IX, n°1/1977, pp. 133-140. For the opposite view and a discussion of the simultaneous presence of both money and barter, J. Sapir, "Le troc et le paradoxe de la monnaie" in *Journal des Anthropologues*, n°90-91, décembre 2002, pp. 283-304.
46. D. Woodruff, *Money Unmade: Barter and the fate of Russian Capitalism*, Cornell University Press, Cornell, 1999.
47. J. Sapir, "A l'épreuve des faits...Bilan des politiques macroéconomiques mises en oeuvre en Russie", in *Revue d'études comparatives est-ouest*, vol.30, n°2-3/1999, pp 153-213.
48. D. Marin, "Trust Vs. Illusion: what is driving demonetization in Russia?", *Discussion paper Series*, n°2570, CEPR, Londres, september 2000.
49. J. Sapir, "La crise financière russe comme révélateur des carences de la transition libérale" in *Diogène*, n°194, April-June 2001, pp. 119-132.
50. J. Sapir, "Russian crash of August 1998: Diagnosis and prescriptions", *Post-Soviet Affairs (ex-Soviet Economy)*, Vol. 15, n° 1/2000, pp. 1-36.
51. On the functionalist fallacy, see Stiglitz's Nobel Lecture, J.E. Stiglitz, "Information and the Change in the Paradigm in

Economics", in *American Economic Review*, vol. 92, n°3, juin 2002, pp. 460-501.

52. F. Guizot, *Histoire de la civilisation en France depuis la chute de l'Empire Romain*, Didier, Paris, 1869. 7th lesson, 1828.

53. This argument has been well demonstrated by Carl Schmitt. Although one may reject his conclusion and be disgusted by his political positions between 1920 and 1945, he certainly is a founding father for a realist understanding of paradoxes of a democratic society. See C. Schmitt, *Legalität und Legitimität*, Duncker & Humblot, Berlin 1932 (there is one French translation of this book as *Légalité et Légitimité* but, to the best of my knowledge, none in English); Idem, *The Crisis of Parliamentary Democracy*, MIT Press, Cambridge, Mass., 1985 (1926).

54. See C. Mouffe, "Carl Schmitt and the Paradox of Liberal Democracy" in C. Mouffe (ed.), *The Challenge of Carl Schmitt*, Verso, London & New York, 1999, pp. 38-53.

55. J. Sapir, *Les économistes contre la démocratie*, Albin Michel, Paris, 2002.

56. For a good discussion about the Asian crisis and different responses put by different governments, R. Wade, "The Coming Fight Over Capital Controls" in *Foreign Policy*, vol. 113, hiver 1998-1999, pp. 41-54; R. S. Rajan, "Sands in Wheels of International Finance: Revisiting the Debate in Light of the East Asian Mayem", *Institute of Policy Studies working paper*, Singapour, Avril 1999 and B.J. Cohen, "Contrôle des capitaux : pourquoi les gouvernements hésitent-ils ?", in *Revue économique*, vol. 52, n°2/mars 2001, pp. 207-232.

57. A. Bagnasco & C. Trigilia, *La costruzione sociale del mercato. Studi sullo sviluppo di piccola imprese in Italia*, Il Mulino, Bologna, 1988.

58. G. Benko & M. Dunford, (eds.), *Industrial Change and Regional Development*, Pinter/Belhaven Press, London, 1991. G. Benko & U. Strohmayr (eds.), *Space and Social Theory*, Blackwell, Oxford, 1997. G. Benko, *La Science Régionale*, PUF, Paris, 1998.

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The Critique of Economic Policy

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Now more than ever, the watchword in economics is "policy." "Decision-makers" demand – and sometimes pay well for – "the appropriate policy" to solve those economic problems that strike them as important. Economists interested in "practical relevance" respond by "applying" their theories to supply such a policy. What goes unquestioned is the plausibility of "policy" itself. Yet, the very notion of policy is questionable. This analysis seeks to show that "policies" are now fashionable disguises for partisan ideologies. While the victims of policies have long suspected this, I propose to validate their suspicions in logical terms.

The Absurdity of Policy

A policy is an action proposed as a means to solve a problem. For example, for many private and public decision-makers, the US economy's decline (since its stock market bubble burst in 2000) is a problem. They demand solutions from economists. Predictably, economists propose mixes of more or less conventional monetary and fiscal policies. The Bush regime chooses to reduce interest rates, increase money supply, cut taxes, and so on. In classic fashion, it identifies a problem and implements the appropriate policy.

Very particular and partisan presumptions underlie such exercises in economic policy. First,

proponents of policies presume that the problems presented to them have a few “key” (or “essential” or “determinant”) causes. Second, they presume these key causes to have been “found” by economists and hence to be “known”. Policies are then simply the negations or reversals of these key causes. Having found that economic decline is determined by high interest rates, the appropriate policy is to lower them. If decline was found to follow from high taxes, policy lowers them, and so on.

However, why make such restrictive presumptions? It is much more reasonable to presume that many, many causes combine to produce any economic problem. For example, American economic decline since early 2000 has been shaped by all manner of political, cultural, and economic causes. These include – but are hardly limited to - shifts in consumers’ sentiments about saving for retirement; personal, corporate and government debt; workers’ productivity and attitudes toward work; capitalists’ expectations about competition, market expansion, and union organizing campaigns; bankers’ risk assessments of domestic and foreign loans; foreign currencies being pegged to the US dollar; federal and state regulators’ attitudes toward accounting standards, pollution control, and auditing of corporate tax returns; pentagon arms procurements; Chinese exports’ unit-labor costs; young Americans’ expenditures on housing; consumers’ vacation plans; changing production technologies; the effects of pre-emptive foreign wars; the invention of new commodities; and union strategies for bargaining and organizing. Economic decline likely results from an infinity of interacting causes.

That decline, in both its qualitative and quantitative dimensions, results from the interaction of all the causes. Indeed, the causes are so complexly intertwined and interdependent that it is impossible to abstract one or a few causes from the totality of causes and attribute effects (e.g., economic decline) to those few alone. To do so presumes that the effectivity of the selected one or few selected causes could somehow be disentangled from and comparatively ranked above all other causes. Nothing logically warrants this presumption, notwithstanding the desire to produce policy for those who demand and pay.

Econometricians glimpse a parallel problem of unwarranted presumptions. That glimpse underlies the cautionary argument found at the beginning of most econometric texts: that one cannot logically infer causality from correlation. Econometricians often forget that cautionary argument. They imagine (mistake) themselves to be ferreting out causal linkages in their correlation studies. In parallel fashion, policy economists imagine (mistake) the few causes their work focuses on for being *the few key causes* of whatever problem their policy aims to solve.

Nor is this logical error avoided if economists accept that the causes for any economic problem are infinite in number and variety, but then proceed to presume that a very few among them – those chosen as “the policy tools” - are “the most important causes.” To know which are the “most important” – or “key” - requires comparing them to all the other possibly effective causes. Since the latter are of immense number, that comparison cannot be done. It has never been done. Whatever basis economists may *claim* for selecting the particular causes that their policies stress, the actual basis for that selection simply cannot be that they or anyone else “found” those variables to be the most important among *all* the causes. We will need to look elsewhere to explain why different policies select the particular causes that they do.

True, decision-makers dislike hearing that the problems concerning them (or, if they are politicians, their constituents) have countless causative factors whose relative effectivity cannot be ranked. They wish to be capable of “solving” economic problems. So they press and pay economists to produce policies that promise solutions if just this or that (or those) key cause(s) is (are) adjusted. If the problem fades after such adjustment, they take credit. If the problem persists or worsens, they blame economists. In their defense, the economists point to “unusual” or “exogenous” factors that “caused” the failure in a policy that is otherwise – in “normal circumstances” – effective. Policy economists then argue among themselves over which economist’s key causes are “the most effective” and so ought to be central to proposed policies. Decision-makers may well choose a

different policy from that which failed and resume the entire exercise. Indeed, there may be oscillations among a set of policies as decision-makers cycle through them when economic problems elude solutions. This has long been the reality of government economic policy in much of the modern world.

Thus, for example, interest rates and federal budget surpluses have been widely claimed as key causes of the US economic decline since early 2000. Correspondingly, lowering interest rates and moving federal budgets toward deficits became appropriate policies. Those policies would increase consumer spending and business investment, solving the problem by turning economic decline into growth. Yet, there could be no assurance whatsoever that all the other operative causes of economic decline might not overwhelm or negate the impact of these policies. Indeed, historically unprecedented interest rate reductions by the Federal Reserve over the last two years and Bush's tax cuts failed to reverse the decline. Had they "worked", however, the logical problem remains. There would be no way to know whether the policies pursued or countless other causes had reversed the decline. While the economists debate which is the right policy to pursue, the deeper problem lies with policy per se.

The Importance of Policy

Having shown how policy depends on unreasonable presumptions about key causes, it remains to explain the actual importance of policy. Many people want and support policies as solutions to pressing problems. Responsible decision-makers demand and rely on specific policies. Trained specialists produce, refine, and debate appropriate policies. The evident contradiction – policy as theoretically absurd and policy as important practically – needs to be acknowledged and accounted for.

Returning to the example of recent American economic decline illustrates policy's practical importance. Rising rates of unemployment, personal bankruptcy, and reduced public services strike many as urgent problems requiring solutions. Because the decline coincides with the Bush presidency, it poses a problem for his 2004 re-election campaign. He demands a policy to solve the problem of economic decline as do stock market players and businesses facing continuing losses, states confronting huge budget deficits, and so on. They all demand "policies." The mass media feature experts in economic policy proposing, challenging, and debating alternative remedies. No doubt something socially important is going on.

What makes any policy important, however, is not the solution it promises because, as argued in Part I above, that promise is empty. Because each policy focuses on merely one or a few of the vast array of any problem's causes (ignoring all the others), its effectivity is utterly contingent and unpredictable. Previous declines in the US show a simple truth about all policies to reverse them: sometimes they work and sometimes they fail.

The clue to unraveling what makes policy practically important lies in what *differentiates* policies. Each policy focuses upon a different few of the innumerable causes of a targeted problem. For one policy, the key is interest rates and business investment; for another it is government budgets and aggregate demand; and for still another, it is currency exchange rates.

Each policy focuses the attention, discourse, and actions of a public concerned with a problem. It focuses them precisely upon the particular subset of the causes selected by that policy. Thus, Fed policies on interest rates and Bush policy on budget deficits become ways to shape and control how Americans think about a problem such as economic downturn. To make the point more sharply, virtually exclusive public discussion about interest-rate and budget deficit policies keep people from thinking about other causes of decline.

For example, no significant public discourse focuses on how the capitalist class structure of

business enterprise contributes to the current economic decline. This is because no policy aimed at class change is permitted entry into public discourse. Similarly, only a tiny, marginalised public discourse links Washington's particular anti-terrorism program to that decline. Once again, no policy aimed at changing Bush's anti-terrorism program obtains a place among the hegemonic set of "policies" debated in the overlapping spheres of government, business, media, and academy.

Policies "work" by selecting particular causes of any targeted problem, focusing exclusively upon them, and thereby moving other causes to the edges or altogether out of consideration. The currently hegemonic set of debatable policies for reversing US economic decline excludes policies focused on class and anti-terrorism. There is no logical reason for this exclusion. No analysis exists or could exist to prove that all possible causes of economic decline other than interest rates, state budgets, business and consumer spending are negligible.

There are ideological and political reasons for the exclusions worked by all policies. A public excluded from knowledge of, let alone debates over, class-focused policies will not likely think about changing class structures to reverse an economic decline. That is the point. A public concerned about decline may be nicely controlled by limiting debate about its causes and remedies to the current "appropriate policy alternatives". One way to preclude social movements from dealing with economic decline by challenging the capitalist class structure of the US is to keep public discourse about policies focused on causes other than class.

The great practical importance of policy is to shape events by restricting the public discourse about what steps are appropriate to deal with problems. That is why, despite the fact that particular policies – e.g., reducing interest rates to reverse economic declines – "fail" as often as they "succeed", they remain dominant policies across repeated economic declines. People thinking about interest rates are not thinking about class transformation. If interest rate reductions fall out of favor, then perhaps a policy shift to tax cuts, or currency manipulations will occur. In all such cases, these policy tools keep people from thinking about class transformation. Policies police the public understanding and response to social problems.

It is thus important to establish, maintain, and give wide exposure to the small "policy community" of political and business leaders and their paid experts inside and outside the academy. Distant from people's daily lives, its expertise heavily promoted, this community invents and debates its carefully restricted set of policies. It keeps ready alternative policies for those deemed to have failed. It makes sure that policies allowed into the orbit of discussion exclude social structures of wealth, power, and class as causes of social suffering. This exclusion operates by silence whenever possible. When silence is insufficient, exclusion is achieved by denouncing the unwanted policies' flawed basis, ineffectivity and/or ulterior political motives.

The US policy community functions well these days. Economic decline will not likely provoke policies that challenge the class structure. The now hegemonic set of policies will likely see American society through yet another of its endemic cycles of instability and mass suffering. When the upturn arrives, it can and will be credited to one or another within the hegemonic set of policies. Why not?

Policy and Radical Critics

Economic policies have little relevance to actual solutions. Policies *are* relevant to controlling how people think about and act on problems. That control function emerges from the limits on what is considered as policy, limits accepted and enforced by the "experts". Excluding consideration, let alone debate, of alternative policies (outside the limits) reinforces the social status quo, especially its class structure.

What enables this exclusion to persist, even when challenged by supporters of the excluded

policies? It is hardly the mediocre success rate achieved by official policies (witness the failures of monetary and fiscal policies to reverse declines in Japan, Western Europe and the US in recent years). What most sustains the limits and exclusions operated by the hegemonic policy community is one central claim, namely to have “found” those very few “key” causes (within the infinity of those that contribute to the targeted problem) that alone define and delimit “appropriate” policy. Before radical critics – those interested in basic social (including class) change - can obtain a hearing, they must deconstruct and persuasively undermine that central claim.

Radical critics can do more and better than to design and propose policies likely to be ignored or dismissed. Nor need they succumb to the policy community’s definitions of what counts as “realistic” policy, since that amounts to accepting the very limits against which their radicalism otherwise struggles. Radicals might best begin by criticizing the entire enterprise of “policy solutions,” exposing its logical absurdity and the partisan ideological and political ends served by the currently hegemonic set of policies and policy-makers.

Economic problems confront all economists with danger and/or opportunity. An economist’s social agenda (e.g., status quo versus radical class transformation) may be endangered (compromised or defeated) by how the problem is understood and acted upon. Opportunity lies in the possibility that the problem will be understood and treated in a manner advancing the social agenda of the economist. Advocating particular policies as “solutions” for problems is a way to advance a particular social agenda. The claim that particular policies actually “solve” the problems is a ruse or disguise for - a displacement of - what are actually promotions of particular social agendas. Policies promote their proponents’ social agendas by controlling how people understand and respond to social problems that arise. If radicals successfully undermine the absurd claim that a policy is “the solution,” they could level the policy debate playing field. Instead of disputes among carefully limited policy options whose “found appropriateness” excludes radical policies, policy debates would become explicitly recognized contests among alternative social agendas and their correspondingly differing ways of understanding and reacting to social problems.

To show that there is no such thing as the “right” policy, but only a ceaseless contestation among alternative social agendas is the best strategy for opening present and future policy debates. It may also be the best strategy for drawing many more people into discussion of and decision on social issues. Instead of an elite of credentialed “experts” versed in an increasingly arcane and distant terrain of “appropriate policy mechanisms,” we might expect a return to genuine participation. Alternative social agendas and visions – if and when people understand that they lie behind the ruse of policy – might return to become the stuff of a democratic politics.

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Neo-Classical Economics Is Not “Neo”, But “Anti”-Classical

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The “Neo” in the expression “Neo-Classical Economics” suggests that today’s prevailing economics,

the one that has become “autistic”, is a continuation or a new edition of Classical Economics. I do not know when or why this terminology was originated, but, wherever or however it was, it is seriously misleading. Far from being a continuation of Classical Economics, current “Neo-Classical” Economics is, in its fundamental features, definitely “*Anti-Classical*”. It represents not a continuation, but a radical break with Classical Economics. And not exactly for the best, as I am going to argue.

What is Classical Economics? To cut a long story short, let me take Ricardo as the representative of Classical Economics.

It is well known that the conception of value in exchange as labor lies at the heart of Ricardian Economics. It is true that Ricardo found serious problems in establishing the connection between value and labor, but this was the basis upon which he purported to explain the workings of a capitalistic economy. Ricardo had taken the idea from Smith, who had the same project and who, also, found problems to bring it to fruition. For both economists, the ultimate goal is to account for *profit*. Profit is the name of the game in Classical Economics, simply because it is understood to be the name of the game in a capitalistic economy. The question about exchange value is raised because there is a previous question about the nature of *profit*: what has to be explained is profit, but profit is some kind of surplus *value*. Not surplus *value in use*, but surplus *value in exchange*. If we want to understand profit, Smith and Ricardo say, we must start by understanding what value in exchange is, and, on this basis, we will be able to understand what profit, surplus exchange value, is.

The “Neo-Classical” approach to value, on the contrary, starts from *exchange*, not from *profit*. “Neo-Classical” Economics starts from the analysis of the *concept of exchange*, that is, of *exchange as such*. While Classical Economics focuses on *surplus exchange value*, “Neo-Classical” Economics focuses on *exchange value*. From this starting point, it arrives at the hardly surprising conclusion that, from the standpoint of pure exchange, the notion of surplus exchange value is *irrational*, a contradiction in terms. Hence the shocking “Neo-Classical” thesis that *competition annihilates profit*. What this thesis actually means is that *exchange as such excludes logically the idea of surplus exchange value*. Despite the wording, the thesis does not speak of competition and profit, but of exchange and surplus exchange value.

It is typical of “Neo-Classical” Economics to surreptitiously identify the concepts of *exchange* and *competition*. This can be seen in “Neo-Classical” microeconomics textbooks; the chapters on externalities and related themes provide good examples of this confusion. For instance, we are told, first, that an *exchange* of money for the right to smoke among smokers and non-smokers may be Pareto-optimum. Next, we are told that it has been shown that the *competitive* solution is Pareto-optimum, that the outcome of a *competitive market* for smoking has been shown to be Pareto-optimum. The underlying idea is that a perfectly competitive capitalist economy does not differ in its essentials from a barter economy in which the improvement of utility (and not the endless accumulation of exchange value) is the end of exchange. Competition, when it is perfect, annihilates profit and, thus, annihilates surplus exchange value. What remains is exchange value as a temporary means to use value, so that a truly competitive capitalistic economy becomes, in the end, a barter economy in which the very notion of profit is totally out of place.

While the focus of Classical Economics is to bring to light the nature of surplus exchange value, “Neo-Classical” Economics starts from the basis that there is no such thing as surplus exchange value. That this is best seen under perfect competition does not imply that monopoly power gives rise to any surplus value. On the contrary, it is a standard thesis in “Neo-Classical” Economics that monopoly power, far from giving rise to any surplus exchange value, gives rise to a *redistribution* of an already existing exchange value to the monopolist, at the expense of those who pay for the monopolized commodity a price higher than its value. Accordingly, monopoly profit does not represent any surplus value, but a transfer in which one party gains what the other party loses. Moreover; in the end, all lose, because monopoly implies a deadweight loss which is a burden for the economy as a whole. In the end, no matter whether competition or monopoly prevail, “Neo-

Classical Economics” sees, rightly, that the analysis of exchange as such excludes the notion of surplus exchange value. From this truth, it concludes that surplus value in exchange is irrational and, therefore, that it does not exist, that profit is appearance of surplus value without reality.

In Classical Economics, on the contrary, the end of exchange, (and of production, which forms a unity with exchange) is not the improvement of utility, but the transformation of commodities into money for the sake of profit, that is, the accumulation of wealth in the shape of exchange value, money, for the sake of accumulation itself. For the Classical tradition, the concept of price is only indirectly related to utility, and it is primarily related to profit; in other words: price is not a means to improve utility, but a means to surplus value, to the accumulation of capital for its own sake.

The “Neo-Classical” contention that competition annihilates profit amounts to saying that the notion of price as derived from the analysis of exchange as such is the only notion of price that makes sense in economic analysis. This view is decidedly at odds with reality, the observation of which shows that the name of the game in the economic system in which we live is profit and the growth of capital. Confronted with this conflict, does “Neo-Classical” Economics conclude that something is wrong with its theoretical conceptions? Surprisingly enough, it does not; it chooses, instead, to put the blame on *abstraction*. Science requires abstraction, says the standard “Neo-Classical” apology, but abstraction, sadly, involves leaving aside real properties, and, in the end, a loss in realism. “Neo-Classical” Economics, we are told, is a very scientific endeavor, which implies that it flies high and, therefore, that it is “highly abstract”. The seeming disagreement between theory and reality does not show that the theory is false, but that it is abstract.

As we all know, abstraction is an operation of thought; where there is abstraction, there is thought. But where there is thought, there is knowledge. Being an operation of thought, abstraction is, therefore, a mode of knowledge, that is, an operation of thought whereby we get to know something about reality, something that empirical observation does not reveal to us. The “Neo-Classical” view that abstraction involves, in the end, a loss in realism implies that abstraction involves a loss in knowledge and, in the end, that abstraction is a mode of non-knowledge. In my opinion, this is a mistaken notion of abstraction that leads to the paradoxical view that abstraction is not an operation of thought whereby we know something real about reality, but an operation whereby we ignore something real about reality. Abstraction separates us from reality, instead of getting us closer to it. Autism?

Looked at from Classical Economics, the problem with the “Neo-Classical” conceptions of value and profit is not that they are “highly abstract”, but to the contrary, namely, that they are “lowly abstract”, which is why they lead us to deny the evidence. “Neo-Classical” Economics makes things still worse by trying to make up for its lack of abstraction by focusing on the formality of the quantitative relationships among economic phenomena. These, truly, are real determinations of economic reality, but accidental determinations. It is a significant fact that the separation between theory and reality has steadily increased as the so-called Mathematical Economics has grown. Mathematics, far from being an aid to shed light and to promote rigor and scientific dialogue, has sunk economics into schizophrenia and scholasticism. The last culprit in this sad story is the old noble science of mathematics; the villain is the lack of theoretical abstraction that disguises its weakness under the cloak of the formal language of mathematics.

In Classical Economics, “high abstraction” does not lead to the employment of the term “competition” as equivalent to “exchange”, or to saying that, in developed capitalistic economies, profit is annihilated. A competitive economy is not one in which surplus value has been annihilated. Competition is not the process whereby profit (surplus value) is annihilated, but the process whereby profit is uniformly *distributed* among the capitals of the economy, so that the profit rate is the same for any capital investment. This is the Ricardian conception of competition. Ricardo never thought that competition annihilated profit, and never claimed that his theories were at variance with facts in so far as they were highly abstract. This is not to mean, in any way, that economics has ended with Ricardo, but all the contrary.

More perhaps than in other times in its history, economics today needs a fresh framework to understand the economic problems of our age, some of which are very pressing and of decisive relevance for our lives. Let us begin our search for such a new framework by not confusing the Classical tradition, in which we may find a lot to learn, with the “Anti”, not “Neo”-Classical tradition that has led economics to its current state of stagnation.

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Joan Robinson and the Post-Autistic Economics Movement

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This is Joan Robinson’s centenary year. She died in 1983 after more than 50 years of providing relevant, original and significant contributions to economic theory. As is well-known, unlike many less outstanding economists, she never won the Nobel Prize or a peerage. (I suspect that she would have declined them both.) These are facts explained by extra-curricular matters: being a woman, lucid, radical, nonconformist and dedicating most of her writing to unveiling the fallacies of orthodoxy (from liberal to Marxist). This is a difficult mixture for the establishment to digest and a good reason why we should read her works today. Such a reading reveals how much Joan Robinson anticipated and developed the analysis that nourishes the now mushrooming global challenge in economics to the neoclassical tyranny. Her thoughts are echoed not only in the petitions of the students of Paris and the two Cambridges, but also in the articles of many distinguished contributors to this journal. Here are a few examples of her PAE thoughts.

1. The purpose of studying economics is not to acquire a set of ready made answers to economic questions, but to avoid being deceived by economists. (1951-1980, vol. II, p. 17)
2. It is often said that one theory can be driven out only by another; the neoclassicals have a complete theory (though I maintain that it is nothing but a circular argument) and we need a better theory to supplant them. I do not agree. I think any other “complete theory” would be only another box of tricks. What we need is a different habit of mind - to eschew fudging, to respect facts and to admit ignorance of what we do not know. (1951-1980, vol. V, p. 119)
3. The victory of Keynes’ theory over the orthodoxy of sound finance was not due to his superior logic but to the pressure of the events in the world. Perhaps we shall finally owe the defeat of neoclassical complacency to the public indignation at the devastating accidents which highly profitable technology is always bringing about. (1980, p. 119)
4. Economic reasoning alone cannot offer a solution for any economic problem, for all involve political, social and human considerations that can not be reduced to “the lore of nicely calculated less and more”. The object to an introduction to analysis should be, not to propound solutions, but to suggest to the reader what he must take into account in trying to make up his own mind about the issues presented to him by the age in which he lives. (1973, p. 293)
5. I believe, however, that there is a lot of difference between good analysis and bad, apart from

ideological tendencies. Logic is the same for every one (though I could never get Professor Samuelson to admit it) and the reading of evidence, though always biased to some extent, can be more or less fair.....Honesty and hard work are required of radicals, while the orthodox can doze over their dogmas. (1951-1980, vol. V, p. 118-119)

6. The professional economist keeps up a smoke screen of “theorems”, and “laws” and “pay-offs” that prevent questions such as that (why the USA keeps an appreciable proportion of its population in perpetual ignorance and misery) from being asked. This situation is, I think, inevitable. In every country, educated institutions in general, and universities in particular, are supported directly or indirectly by the established authorities and whether in Chicago or in Moscow, their first duty is to save their pupils from contact with dangerous thoughts. (1951-1980, vol. V, p. 98)
7. The task of deciding how resources should be allocated is not fulfilled by the market but by the great corporations who are in charge of the finance for development. These questions involve the whole political and social system of the capitalist world; they can not be decided by economic theory, but it would be decent, at least, if the economists admitted that they do not have an answer to them. (1951-1980, vol. V, p. 30-31)
8. Private enterprise is wonderfully flexible in jumping from one profitable market to another, but is very rigid in resistance to social control. . . . There is no point in thinking of what we really want, such as abolishing poverty and restoring peace. All we can ask for is what they choose to give us. We must keep the show going or else they won't give us anything at all. (1951-198, vol. V, p. 129)
9. The student of economic theory is taught to write $O = f(L, C)$ where L is a quantity of labour, C a quantity of capital and O a rate of output of commodities. He is instructed to assume all workers alike, and to measure L in man-hours of labour; he is told something about the index-number problem involved in choosing a unit of output; and then he is hurried up to the next question, in the hope that he will forget to ask in what units C is measured. Before ever he does ask, he has become a professor, and so sloppy habits of thought are handed on from one generation to the next. (1978, p. 76)
10. A generation well educated, resistant to fudging, imbued with the humility and the pride of a genuine scientist could make contributions both to knowledge and to the conduct of affairs that no one need be ashamed of. (1951-1980, vol. III, p. 6).

“He who is convinced against his will
Is of the same opinion still”. (1978, p. 125)

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