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On the ‘Nobel Prize in Economics’ and the monopoly of neoclassical theory at university departments of economics

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Early in October 2009 a journalist from a French business journal, *Challenge*, called me to discuss the so called Nobel Prize in Economics. He referred to a translated version of my critical article in *Dagens Nyheter* from 2004. I hope that the result from the interview was meaningful but at the same time I felt that I need to consider once more where I stand in relation to these issues. In what follows, there is a ‘socially constructed’ interview with myself in both roles; the person asking questions and the one responding. I hope this will clarify my position.

At the final stage of writing these pages I heard of the new winners of the Economics Prize, Elinor Ostrom and Oliver Williamson. A short comment on this is made as a postscript.

Is economics a science as you understand it?

I have nothing against thinking of economics as a science. Economics is one of the social sciences, such as political science, sociology, psychology, management science. There are also important relationships to the humanities, such as a possible focus on individuals as actors and their subjectivity. I am skeptical to the attempt to emphasize similarities between economics on the one hand and physics, chemistry, medicine on the other. The latter disciplines are too limited to positivism as a theory of science (standing outside, watching ecosystems and nature, looking for regularities in a value neutral way, making experiments etc.)

You are skeptical to, if not against a Nobel Prize in economics; why is this so?

For me, it is the combination of two states of affairs or facts that make me question the economics prize in its present form:

- There is a dominance and monopoly for one kind of economics, ‘neoclassical economics’ at university departments of economics in all parts of the world
- Economics (neoclassical or other) is not just science; it is also specific in ideological terms

Since our societies claim to be democracies, the exclusion of competing perspectives at university departments of economics means that such departments take a stand for some ideological orientations in society and against others and indeed acquire a role as political propaganda centers.

One of the economists who at an early stage took an interest in value issues in research and education is Gunnar Myrdal. He argued that “values are always with us” in social science research; in the problems we choose to study, in the choice of conceptual and theoretical frame of reference; in the choice of method and in the choice of ways of presenting results.
You cannot choose without referring to some values. It can be added that Myrdal left the neoclassical camp to become an institutional economist.

I prefer to refer to ‘ideology’ and ‘ideological orientation’ rather than ‘values’ where ideology is about ‘means-ends philosophy’ or ‘ideas about means and ends’.

**What does this mean for the role of economists in the political debate?**

Economists can no longer – as neoclassical professors still do – claim value-neutrality. Instead they have to become more modest people and openly deal with their own ideological preferences and the diversity of ideological orientations in society. Illuminating an issue in relation to what appears to be relevant ideological orientations becomes an imperative while ideas about one (neoclassical) ‘optimal’ or ‘efficient’ solution for society as a whole based on alleged ‘correct values’ are downplayed.

**Do you deny the usefulness of neoclassical economics all together or is it mainly in relation to certain problems? You sometimes present yourself as an ecological economist…**

Good question; Neo-classical economics with its specific models of individuals, firms, markets etc. has a role but only as part of a pluralistic philosophy. There are problems in the sphere of monetary and financial policy where neoclassical theory and analysis can be applied although some of the limits of neoclassical theory also appear in relation to these fields. A new ideological/ethical orientation is needed as an example.

There are other problem areas where the shortcomings of neoclassical theory are accentuated and where other theoretical perspectives are much needed as a complement or alternative. For me the environmental and ecological challenges are important. Our societies, from the local to the global, are facing problems that threaten humanity in a new way. Market and economic growth ideology is no longer enough. This ideology is even a threat to sustainability. A new direction for development has been recommended at all levels from the UN, through EU, nations, cities or municipalities to organizations and individuals. Simplistic thinking in terms of economic growth and business profits has to leave room for sustainable development (SD) as a new ideology.

**This suggests, I guess, that we need to discuss the meaning of SD and also the reasons why neoclassical economics is no longer enough. Why do you disqualify neoclassical economics in relation to SD?**

I do not argue that neoclassical economics cannot contribute to a change in development policy. I am just saying that neoclassical theory is not enough and that relying exclusively on neoclassical theory may make problems worse. Again, it is the monopoly that is the big problem.

SD is a ‘contested concept’ in the sense that there are more interpretations than one of its meaning. A power game is going on between different actor groups about how to understand SD. For simplicity I suggest three interpretations:

- a) Business as usual (BAU)
- b) Modernization
- c) Also consider ‘radical change’
Neoclassical economics essentially stands for a BAU ideology. Firms are assumed to maximize monetary profits and consumers utility in a self-interested sense. There may be some openings for ‘modernization’ in the sense that so called externalities (impacts on third parties as a result of a market transaction) may be ‘internalized’ through charges and taxes but this goes against neoclassical beliefs in the unregulated market. Neoclassical economists may be more interested in designing new markets, for example markets for pollution permits as in the case of the Kyoto Protocol. Again, market solutions are preferred as being more flexible and as opposed to other strategies or instruments.

‘Modernization’ stands for modifying and adjusting the present political-economic system to improve performance in relation to SD indicators or objectives. Markets for pollution permits have already been mentioned, eco-taxes is another category. But also phenomena not being compatible with the neoclassical paradigm exemplify modernization. Environmental Impact Assessment (EIA), Life-Cycle-Analysis (LCA), Environmental Management Systems, such as ISO 14 001, environmental labeling and fair trade institutions belong to this category. Increased interest in Corporate Social Responsibility (CSR) and codes of conduct for business executives are other examples.

‘Radical change’ stands for a readiness to also consider more fundamental changes in the present political-economic system. Nobody knows in detail what a political-economic system that constructively deals with sustainability issues would look like but we certainly have ideas about where to start.

The present political-economic system is closely related to the dominance of positivism as an idea of science, the dominance of neoclassical economics (among theoretical economics perspectives) and the dominance of neo-liberalism as an ideological orientation. If we look for alternatives to, or changes in, the present political-economic system, then we should open the door for a dialogue about:

- Theories of science and the role of science in society
- Competing and complementary conceptual frameworks and theories in economics
- Competing ideological orientations for local, regional and global development

Positivism is not the only theory of science, neoclassical economics is just one among perspectives in economics and neo-liberalism is challenged by advocates of other ideological orientations. I will not here be able to discuss such competing views and what they suggest in terms of alternative institutional arrangements (see Söderbaum 2008).

You have not responded, at least not directly, to the question about weaknesses in neoclassical theory in relation to SD....

OK. Neoclassical economics focuses on the monetary dimension. It is about markets and the prices of commodities. The consumer’s budget considerations, profits in business, Cost-Benefit Analysis (CBA) and Gross Domestic Product (GDP) are all monetary concepts and phenomena at the heart of neoclassical analysis.

For purposes of SD we need a multi-dimensional set of indicators and we probably also need to keep non-monetary indicators separate from each other and from the monetary ones. While logic on the monetary side is of a trade-off kind in the sense that one impact can offset
another, the non-monetary logic is a bit different with phenomena such as inertia, path-dependence and irreversibility.

In ethical terms, neoclassical analysis starts with an assumption of self-interest as motivating human behavior. Self-interest is not excluded as part of other theoretical perspectives but the essence of SD is instead an effort to extend ethical horizons in time and to include other people. The title of the Brundtland Report, *Our Common Future* (1987), points in this direction. Political-Economic Person (PEP) assumptions open the door for a diversity of ideological orientations rather than postulating a specific ethics. Ethics and ideological orientation then is something to be investigated rather than taken as given.

The list can continue but I like to turn the question a bit by pointing to some neoclassical principles that I like and that are not observed by the neoclassical economists themselves in relation to their paradigm and discipline. Milton Friedman, one of the ideological fathers of neo-classical economics and Neo-liberalism, wrote the book *Free to Choose* (1980). Are we as citizens and students of economics ‘free to choose’ among theoretical perspectives or paradigms in economics?

The answer is no. Do neoclassical economists observe the neoclassical ‘opportunity cost principle’ at the level of paradigms? Do they celebrate competition between theoretical perspectives? The answer is no; they do not like to hear of alternatives and while encouraging competition in society outside the university department, they prefer protectionism and monopoly when it comes to paradigm. This ‘double-talk’ is worth contemplating.

When discussing risk-philosophy, it is often argued that a smart person will “not put all eggs in one basket”. But this is what neoclassical economists have done, those responsible for the Nobel Prize in economics included. And now they are in trouble.

**What are your own experiences about the Bank of Sweden Prize and the dialogue about a need for pluralism in economics?**

Concerning the so called Nobel Prize in Economics very little happens, it appears. Those in charge of the award understand some part of the criticism and may take small steps in an interdisciplinary direction by electing persons connected with psychology and brain research. But in doing so, they stick to the positivistic tradition pointing to experiments with human beings that tell us the ‘truth’ about human behavior. I do not exclude the possibility that this may be of interest but if SD is our main interest then such experiments appear to be of secondary importance.

In Sweden, I have had a chance to raise these issues in public debate for example in *Dagens Nyheter* (2004). In 2007 I participated in a Channel 4 television program as a critic of the economics prize and the same year the research secretariat of the Nobel Museum, Stockholm, invited me to present my views in a seminar. But those responsible in the Nobel committee never appeared so there was not much of a dialogue.

Books, some of them textbooks for students, have been published concerning the dialogue about and the need for pluralism in economics (Fullbrook 2003, 2004, 2008, Reardon 2009). There is also a journal, *International Journal for Pluralism and Economics Education*. Conferences are arranged for heterodox economists, Green economists etc. There is a toxic textbooks site (discussing the shortcomings of mainstream *Principles of Economics* books).
and so on. This means that there are some reasons for optimism. On the other hand, neoclassical economists as a rent-seeking group will not give up their monopoly easily. When public choice theory is concerned, the hypothesis is that individuals in some actor category have similar interests and therefore work together as part of some ‘collective egoism’. In the present case, my hope is with an alternative hypothesis that when looking closer there will be heterogeneity in any actor category with respect to ideological orientation (Söderbaum 1991). At some stage there will be influential or less influential neoclassical economists who, while not abandoning all their neoclassical beliefs, will find friends among similarly inclined persons in other actor categories and argue in favor of pluralism.

Who do you think is responsible for the present state of affairs in economics?

We are all responsible but some more than others. If my thesis about the role of ideology in economics is correct, and I think it is, then university departments of economics cannot be left for themselves with their claimed monopoly. We can hope for an interaction between actors within and outside university departments of economics. Also university actors that are not professors of economics are responsible and we may speak of a ‘university social responsibility’ (USR), much like the Corporate Social Responsibility (CSR) referred to in business circles. Universities who claim sustainable development as part of their mission, profile or other commitments have special reason to act.

University professors of economics who close the door for dialogue about pluralism are comparable to other groups in society who have claimed monopoly of power and dictatorship. If they insist on monopoly, they should be recommended to quit their positions as university professors.

Of course, actors within media and politicians are also responsible and can contribute to a democratizing of economics in various ways.\(^1\) In articles and books I have pointed to the similarity between the ideology of neoclassical economics and Neo-liberalism as an established political ideology, suggesting that those who believe in Neo-liberalism have special reasons to participate in the debate. As a result of many years of indoctrination of hundreds of thousands of students, there is today a considerable ‘demand’ for the neoclassical ideology. Among other things self-interest has been made legitimate.

What then are your conclusions? Do you want to add anything?

The monopoly position of neoclassical economists and neoclassical theory at university departments of economics is a problem that requires immediate action. A transformation from monism to pluralism is one of the necessary first steps to improve our prospects for a sustainable development. I am of course aware of the inertia (of different non-monetary kinds) involved in ‘implementing’ such a transformation. But if we believe in democracy we have no choice.

Unfortunately, the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel, the so called Nobel Prize in Economics, adds to the mentioned inertia and is part of the

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\(^1\) For those who believe that the monopoly of neoclassical economics or the Bank of Sweden Prize in Economic Sciences easily can be discussed in Sweden I like to mention that I have this year together with another person submitted short article manuscripts to each of the two big Swedish newspapers *Dagens Nyheter* and *Svenska Dagbladet*. Admittance to these arenas was in both cases denied by the editors (Bo G. Andersson and Lena Karvik respectively). I have to be content with my article in *Dagens Nyheter* from 2004, it appears.
problems faced rather than any solution. Present unsustainable trends are very much the result of actors with mental maps influenced by neoclassical economics. In changing direction we should probably not turn to those actors who more than others are responsible for things that went wrong.

A final question: does this all mean that you would like to see the prize abandoned or changed?

Yes, my first preference is to have it abandoned. Economics has developed into a discipline based on scientific and ideological discrimination. These days we hear for example of the University of Notre Dame, South Bend, Indiana, where the neoclassical department of ‘economics and econometrics’ apparently acts to have a competing more interdisciplinary oriented and pluralist economics department closed down. This kind of power game is going on at many places.

Considering the ideological content of neoclassical economics, what is currently referred to as the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel should correctly and honestly be referred to as the ‘Bank of Sweden Economics Prize in neoclassical theory and ideology’. References to Alfred Nobel should then be deleted since there was no mentioning of the discipline of economics in the will of Alfred Nobel.

When the ideological aspect of economics is fully recognized and when pluralism is safely in place then the science of economics may deserve prizes of some dignity. But pluralism and the ideological aspect suggest that it will be difficult to choose among candidates as is the case with the Nobel Peace Prize. But the value or ideological aspect will at least be openly presented and discussed which represents a step forward. As I see it, there is not much hope for such a development in the near future. Too many influential actors are happy with the present state of affairs. Or, are they?

References:


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Postscript: Short comment to the most recent development with Bank of Sweden awards for Elinor Ostrom and Oliver Williamson

In the previous text I have argued in favor of opening up economics in various ways. Economics should become more pluralistic and conscious about ethical and ideological matters. Much of that criticism remains but now we hear about a choice of persons that at least in the case of Ostrom represents an opening. This is for me a move, albeit a small one, in the right direction. Economics has to become more open to other social sciences and as is well-known Ostrom is a professor of political science. She is a student of management of natural resources which certainly is part of economics but rather than emphasizing competition she points to a possible constructive role for cooperation. Individuals can go together, articulate their own mission and create their own rules in relation to a particular natural resource or ecosystem.

Williamson’s work on transaction costs is for me more an attempted extension of neoclassical theory. He moves around in a world limited to firms and markets and while focusing on institutional change, his analysis exemplifies the same ‘monetary reductionism’ as that of other neoclassical economists. In more ideological terms reference can be made to market fundamentalism.

When some persons receive awards we are all expected to be generous and acknowledge their achievements. I have to admit that my feelings are mixed. A less generous attitude can be formulated as follows:

- There should be no award in economics of this dignity until pluralism has been safely implemented at university departments of economics. Availability of courses in non-neoclassical economics and the use of non-neoclassical textbooks exemplify indicators to be used in this implementation process.
- We have all to admit the ideological nature of any kind of economics, let it be neoclassical or other. Professors of economics who claim to be ‘value-free’ have not understood the basics of their discipline.

- In the name of clarity, mainstream economics as exemplified by Paul Samuelson’s *Economics: An Introductory Analysis* with the first edition from 1948 and Gregory Mankiw’s more recent *Principles of Economics* text with the same title should correctly be referred to as ‘neoclassical economics’. Such a vocabulary represents the first step of recognizing the existence of alternative kinds of economics. I do not claim to have made a complete study but ‘neoclassical economics’ is a terminology avoided before receiving the Bank of Sweden Prize by those who in the last 20 years have received the award. The dogma that ‘there is only one economics’ has to be respected if you wish to be a candidate for the prize.

- Considering the failures of mainstream economics in relation to the present financial crisis in many countries and the even more serious ecological crisis exemplified by biodiversity loss and climate change, the Bank of Sweden committee should in the present situation seriously consider the possibility to recognize those who have criticized neoclassical economics more than others. Learning from another Swedish Prize, the Right Livelihood Award would also be a good idea.

- I guess that the Bank of Sweden award committee receives a large number of proposals concerning US candidates. While there can be good candidates from the USA, at some stage the predilection for this country becomes a bit demanding. This country is not much of a positive example for sustainable development and dominant principles of economics certainly has a role in this failure.

- Elinor Ostrom’s studies of common resources exemplify that also US actors can contribute to a change in policy. She applies the concept of ‘commons’ to specific contexts mainly in developing countries but the concept can certainly be extended to cover a ‘global commons’ and more generally a public sphere. Actually, ‘the public sphere is everywhere’ should become a dogma in alternative kinds of economics. But there will certainly remain differences in how we as actors interpret public interests. Neoclassical emphasis on the private sphere and self-interest is today part of the problems that need to be tackled. By encouraging other kinds of ideological orientation among economists, Ostrom’s research can contribute to a ‘democratizing of economics’.

Västerås date as above

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