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Forum on Economic Reform

In recent decades the alliance of neoclassical economics and neoliberalism has hijacked the term "economic reform". By presenting political choices as market necessities, they have subverted public debate about what economic policy changes are possible and are or are not desirable. This venue promotes discussion of economic reform that is not limited to the one ideological point of view.

Some Primitive Robust Tests of Some Primitive Generalizations

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Few economists – in fact few people in general – would deny that the economy is a very complex phenomenon with many interdependencies and that complex phenomena are difficult to analyse. Many of the important questions raised by economic theory and economic policy cannot be answered easily and definitely because of the dynamics and complexity of the economic system. In the fifties and sixties of the last century this was clearly visible when economic policy controversies were dominated by the metaphor of "magic polygons" (normally triangles or pentagons) of desirable targets: growth, price stability, full employment, balanced external relations, and a just or fair distribution of incomes. The "magic" element mirrored the complexity and the interdependencies of the system which prevent a full simultaneous achievement of all the desired items. Quite apart from differences in the preferences for the competing targets there were considerable uncertainties and disagreements with regard to trade-offs and combinations connected with various policy decisions. Economic theory and increasingly sophisticated empirical and econometric studies helped to gain some insights but could not provide definite final answers. Complexity, situational and historical differences, lack and weakness of data all contributed (and still contribute) to a wide field of observations which show that every decision requires careful considerations of the question which results are probably relevant in a given situation. The diversity of results also contributed to an awareness of the uncertainty and openness of any action taken. Room for discussion and controversy was an obvious and accepted necessity.

With the advance of the neoliberal revolution, with Ms Thatcher's TINA (There Is No Alternative) pronouncement and the "Washington Consensus" the situation has dramatically changed. At least in the political and public sphere the "magic" has disappeared and has given place to some simple catchwords which are taken as reliable signposts for an economic policy leading to growth and welfare always and anywhere. Forgotten is the necessity for a careful weighing of advantages and disadvantages, of trade-offs, winners and losers in connection with different approaches. Deregulation, Privatisation, Balanced Budgets, Central Bank Independency, Slim States are taken as guarantors for satisfactory economic outcomes. Economic theory and applied economics continue of course to show the diversity and fragility of outcomes under different conditions[1]. But the more sophisticated and demanding these studies become (which is part of the scientific progress) the less do they influence the interest-driven public policy and policy discussions. Too difficult to be understood fully by the layman they are either neglected in the public discussion or reduced to vulgarised simplifications which can be used to support the chosen neoliberal path.

Rather than showing the discrepancy between the simple neoliberal folklore and the diversified assumptions and approaches of economic theory I want to present in a similar simple way some robust economic facts in order to show that the neoliberal catch-phrases cannot be taken as reliable guides. There is a German proverb which says “Auf einen groben Klotz gehört ein grober Keil” (“When dealing with a rough log you need a rough wedge”) which is used here. The primitive generalizations are met with primitive answers which cannot reveal the whole “truth” but should be sufficiently robust to shatter the generality and credibility of the attacked assumptions.

What I am going to do is to confront a few simple but strongly held neoliberal articles of faith with a very rough picture of long-run experience (1970-2004) of sixteen Western European OECD countries. The long period should help to iron out short-term shocks and special partisan policies, while a rough division of the sixteen countries into “good guys” and “bad guys” by neoliberal standards presents the stipulated robustness of the argument.

In each of the following examples the sixteen countries will be divided – for each characteristic under discussion – into two groups: an upper group of the eight “best” performers (by neoliberal standards), and a lower group of the eight “worse” performers (always based on averages of the period 1970-2004). An analogous grouping of the sixteen countries is then provided for characteristics which are supposed to be the *consequence* of good behaviour[2]. The degree of correspondence between “cause” and “effect” groups can then be regarded as a rough indication of the validity of the simple beliefs. The procedure will be at once clear with the following examples.

An important item among the neoliberal targets is the achievement of price stability. This is taken up in the first two examples postulating that low inflation is beneficial for economic growth and low unemployment.

(1) *Low inflation promotes economic growth*

In Table 1 the left part (1.1) contains the sixteen countries ranked with regard to inflation rates (annual change of consumer prices), and the right part (1.2) the ranking according to GDP growth rates[3]. The figures in brackets below the upper and the lower half show the range of values for each group. Thus in the case of inflation we have a range of 3,1% for Switzerland to 5,6% for Norway in the upper half and of 5,9% for Finland to 12,9% for Greece in the lower half. (Averages for all countries are given in the Appendix).

Comparing parts 1.1 and 1.2, the quoted assumption demands that countries in the upper half, i.e. low inflation and high growth (L/H for short) should coincide, as well as countries in the lower half (H/L) indicating that high inflation is assumed to hamper economic growth. As can be seen these required coincidences are by no means the rule. They apply only to six of the sixteen countries: Austria, Netherlands, Norway (L/H) and Sweden, UK and Italy (H/L). For the other ten countries we have either high inflation coinciding with high growth (H/H), viz. Finland, Ireland, Spain, Portugal, and Greece, or L/L countries (Switzerland, Germany, Belgium, Denmark, France).

TABLE 1

1.1 **Inflation** Annual % change of CPI	1.2 **GDP Growth** Annual % change
Switzerland	Ireland
Germany	Norway
Austria	Portugal
Netherlands	Spain
Belgium	Finland
France	Greece
Denmark	Austria
Norway	Netherlands
(3.1% - 5.6%)	(5.2% - 2.5%)
Finland	Belgium
Sweden	France
United Kingdom	Italy
Ireland	United Kingdom
Italy	Germany
Spain	Sweden
Portugal	Denmark
Greece	Switzerland
(5.9% - 12.9%)	(2.4% - 1.3%)

Thus a first look shows dramatically that the simple generalization regarding inflation and growth is strongly contradicted by our rough look at reality. One reason for this (perhaps) surprising result is however easily recognized. It concerns the inhomogeneity of the countries considered. When we distinguish between economically more advanced and less advanced countries we can allow for a special "catching-up" effect for the latter group giving it a special growth advantage. Counting as less advanced the four countries (in alphabetic order) Greece, Ireland[4], Portugal and Spain we see that all four have a high rank in the growth table. The positive catching-up factor may have decisively counteracted negative inflation influences, enabling all four countries to move into the H/H group. It seems therefore appropriate to look at the situation when these four countries are excluded. This is done in Table 1A. We now get twelve cases of which eight coincide with the stipulated rule (L/H: Austria, Netherlands, Belgium, France; H/L: Denmark, Sweden, UK, Italy) and four contradicting it (L/L: Switzerland, Germany; H/H: Norway, Finland). With 8:4 in favour of the "rule" the fragility of the "traditional" belief is less gross than before but still considerable.

TABLE 1A

1A.1 **Inflation** Annual % change of CPI	1A.2 **GDP Growth** Annual % change
Switzerland	Norway
Germany	Finland
Austria	Austria
Netherlands	Netherlands
Belgium	Belgium
France	France
(3.1% - 5.4%)	(3.3% -2.4%)
Denmark	Italy
Norway	UK
Finland	Germany
Sweden	Sweden
United Kingdom	Denmark
Italy	Switzerland
(5.4% - 8.3%)	(2.3% - 1.3%)

(2) *Low inflation promotes low unemployment*[5]

Just as in the former and in the following examples the upper halves of 2.1 and 2.2 contain the desirable cases (low inflation and low unemployment) and the lower halves the opposite combination (high inflation and high unemployment). As before, correspondence between the two sides (here: L/L and H/H) confirms the standard assumption, and L/H or H/L contradict it.

As Table 2 shows, there are 12 cases confirming the postulate and 4 (Belgium, France, Portugal, Sweden) contradicting it. With a relation of 12 to 4 this assumption fares better than the previous one but still rests on weak foundations. For less obvious reasons than before the four "catching-up" countries seem to play a special role. They form – together with Italy – the group with very high inflation and unemployment rates. When they are excluded the result for the remaining twelve countries shrinks to 8:4[6]. The four contradicting cases are divided into two L/H cases (Belgium and France) and two H/L cases (Portugal and Sweden) reflecting the role of different policy targets and policies.

TABLE 2

1A.1 **Inflation** Annual %change of CPI	1A.2 **GDP Growth** Annual % change
Switzerland	Norway
Germany	Finland
Austria	Austria
Netherlands	Netherlands
Belgium	Belgium
France	France
(3.1% - 5.4%)	(3.3% - 2.4%)
Denmark	Italy
Norway	UK
Finland	Germany
Sweden	Sweden
United Kingdom	Denmark
Italy	Switzerland
(5.4% - 8.3%)	(2.3% - 1.3%)

(3) *Low government expenditure (slim states) promotes GDP growth*

As Table 3 shows, we get 10 confirming cases (L/H and H/L) and 6 contradicting cases (L/L and H/H). As in all cases where growth is involved, the special catching-up effect dominates and it is again interesting to look at the twelve “advanced” countries. The relation between conformity and contradiction now shrinks from 10:6 to 6:6. Finland remains as the only advanced country belonging to the L/H group.

TABLE 3

3.1 **Government Expenditure** As % of GDP	3.2 **GDP Growth** Annual % change
Spain	Ireland
Switzerland	Norway
Portugal	Portugal
Greece	Spain
United Kingdom	Finland
Finland	Greece
Ireland	Austria
Germany	Netherlands
(35.3% - 45.8%)	(5.2% - 2.5%)
Norway	Belgium
France	France
Italy	Italy
Austria	United Kingdom
Denmark	Sweden
Netherlands	Denmark
Sweden	Switzerland
(45.8% - 57.0%)	(2.4% - 1.3%)

Next we turn to the standard assumption that trade unions and corporatism – by disturbing the market mechanism and keeping up wages – are detrimental for growth and create unemployment.

(4) *Low Trade Union Density (TUD) is favourable for GDP growth*

In Table 4 the upper halves confront low TUD (trade union membership as a percentage of non-agricultural employment) countries with high growth countries and the opposite applies to the lower halves. Correspondence consequently implies the stipulated connection L/H and H/L. From Table 4 we get a draw of 8:8 between affirmation and negation. However here again taking into account the special growth preponderance among the four late-comers leads to a radically changed picture. Removing them from the sample results – for the remaining 12 countries – in a (surprising?) relation of 4:8, i.e. a clear domination of contradicting cases. The four "surviving" affirmative cases are France, the Netherlands (L/H) and Denmark and Sweden (H/L).

TABLE 4

4.1 **Trade Union Density** As % of non-agricultural employees	4.2 **GDP Growth** Annual % change
France	Ireland
Spain	Norway
Greece	Portugal
Portugal	Spain
Switzerland	Finland
Netherlands	Greece
United Kingdom	Austria
Germany	Netherlands
(6.1% - 29.6%)	(5.2% - 2.5%)
Italy	Belgium
Ireland	France
Austria	Italy
Belgium	United Kingdom
Norway	Germany
Finland	Sweden
Denmark	Denmark
Sweden	Switzerland
(30.6 – 77.2%)	(2.4% - 1.3%)

(5) *Low TUD promotes low unemployment*

The upper halves contain "desirable" low rate countries, the lower half high rate countries, i.e. correspondence (L/L and H/H) involves confirmation. Here the special growth differentiation is irrelevant and the data for the 16-country case and the 12-country case yield the same result of 50% correctness: 8:8 and 6:6 respectively. It is noteworthy that Austria, Denmark, Norway, and Sweden (the "Scandinavian Model" states) all fall into the contradictory H/L group.

Finally we take up the case of corporatism and growth which to some extent coincides with the TUD case, but goes beyond it by covering also other elements (see Appendix).

TABLE 5

5.1 **Trade Union Density** As % of non-agricultural employees	5.2 **Unemployment** Annual % rate
France	Switzerland
Spain	Austria
Greece	Norway
Portugal	Sweden
Switzerland	Portugal
Netherlands	Germany
United Kingdom	Denmark
(6.1% - 29.6%)	(2.0% - 6.3%)
Italy	Greece
Ireland	United Kingdom
Austria	Finland
Belgium	France
Norway	Belgium
Finland	Italy
Denmark	Ireland
Sweden	Spain
(30.6% - 77.2%)	(6.7% - 13,5%)

(6) *Low corporatism favours high GDP growth*

This comparison yields a result of 8:8 for the sixteen countries and 6:6 for the twelve. The difference vis-à-vis the TUD result for the group of twelve is caused by shifts of Germany from a low TUD value to a high Corporation Index and of Belgium from a high TUD value to a low Corporation Index. These shifts improve the correspondence with growth.

TABLE 6

6.1 **Corporatism** Ranking from 1 to 16 (1= low, 16 = high)	6.2 **GNP Growth** Annual % change
United Kingdom	Ireland
Switzerland	Norway
Spain	Portugal
France	Spain
Portugal	Finland
Greece	Greece
Ireland	Austria
Italy	Netherlands
(1-8)	(5.2% - 2.5%)
Belgium	Belgium
Netherlands	France
Germany	Italy
Denmark	United Kingdom
Norway	Germany
Sweden	Sweden
Austria	Denmark
Finland	Switzerland
(9-16)	(2.4% -1.3%)

The few examples should suffice to lead to the conclusion of this note that generalizations in general and some neoliberal articles of faith in particular rest on weak foundations or are altogether untenable. Politicians and interest groups might perhaps sometimes be excused when they try to press a point in the heat of disputes. Economists however should not only refrain from such generalizations but should contribute to a better general recognition of their fragility.

Appendix

Sources and details for the Text Tables

The rankings of GDP growth, inflation, unemployment and government expenditure (averages of the period 1970-2004) are all based on OECD sources. The data for Trade Union Density refer to the situation before the turn of the century and come from the ILO World Labour Report 1997-1998. The Corporation Index is a slightly extended version of an Index worked out by Noël P. Vergunst based on a combination of four items (values around 2000): trade union density, centralisation of collective bargaining, coordination of collective bargaining, and coverage rate of collective bargaining (available at: http:www.vergunst.com).

COUNTRY TABLE
Averages 1970-2005

	GDP Growth	Inflation	Unemployment	Government Expenditure[a]	Trade Union Density[b]
	Annual % increase	Annual % change of CPI	Rate of Unemployment as %	As % of GDP	% of total non-agricultural employment
Austria	2,6	3,8	3,0	47,8	36,6
Belgium	2,4	4,3	8,7	51,6	38,1
Denmark	1,8	5,4	6,3	50,7	68,2
Finland	2,9	5,9	7,1	42,7	59,7
France	2,4	5,4	8,2	46,0	6,1
Germany	2,0	3,2	5,9	45,8	29,6
Greece	2,7	12,9	6,7	38,9	15,4
Ireland	5,2	7,5	10,1	43,1	36,0
Italy	2,3	8,3	9,1	46,4	30,6
Netherlands	2,5	3,9	6,1	53,3	21,8
Norway	3,3	5,6	3,1	45,8	51,7
Portugal	3,2	12,4	5,8	37,1	18,8
Spain	2,9	8,7	13,5	35,3	11,4
Sweden	2,0	5,9	4,3	57,0	77,2
Switzerland	1,3	3.1	2,0	-	20,0
United Kingdom	2,3	7,0	6,8	41,7	26,2
a 1970-2000; b about 1995					

Endnotes

1. For a good example of this (in relation to unemployment) see for instance Howell (2004).

2. The upper (”good“) group can contain the low values of the characteristic (e.g. inflation, unemployment) or the high values (e.g. GDP growth).

3. Sources and notes for all tables are given in the Appendix.

4. The recent rapid growth of the Irish economy has moved Ireland into a high-income range. But for the earlier decades of the period considered (1970-2004) the catching-up assumption can be regarded as valid.

5. This ”rule“ reflects the neoclassical assumption that there is no long-run (traditional) Phillips curve and that stable prices help to achieve general equilibrium including labour markets.

6. Here and in the following cases ranking tables for the twelve „advanced“ countries are omitted. They can be easily deduced from the main Tables.

Reference

Howell, D. R. (2004), Fighting Unemployment; The Limits of Free Market Orthodoxy. Oxford University Press: Oxford.

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Forum on Economic Reform

Economic Reform For Whom?
Beyond The Washington Consensus

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The Washington Consensus emerged in the 1980s after the end of the Golden Age decades of post-war capitalism (Williamson 2004). From the mid-1970s, the North Atlantic economies seemed to be afflicted by a phenomenon not anticipated by Keynesian economics, by what was called 'stagflation' – economic slowdown on the one hand and high inflation on the other. This crisis of Keynesianism resulted not only in the rejection of what Joan Robinson called 'bastard Keynesianism' on the western side of the Atlantic, but also the jettisoning of development economics. This was worsened by the debt crises that affected Latin America and Africa in particular, as well as changes in the political landscape and the resurgence of free market conservative ideologies, quite unlike the paternalistic conservatism of the Golden Age associated with the 'social market' economy or the welfare state.

The 1980s' turn to economic liberalization generally undermined state capacities by reducing public sector economic activities and reducing fiscal capacities. In the realm of ideas, this had been preceded by what John Toye (1987) called the 'counter revolution' against development economics. The early 1980s' sovereign debt crises led to stabilization programmes under the auspices of the IMF and structural adjustment programmes (SAPs) managed by the World Bank. Together, they quickly obliterated and reversed the McNamara-Chenery heritage at the World Bank.

This was also reflected in academia, principally in the economics curricula of US graduate schools. One can see this, for example, in the shift from development economics to open macroeconomics, the renewed emphasis on international trade theory, the shift to rational expectations in economics and to rational choice in the other social sciences, as well as the emphasis on supply side economics versus the previous Keynesian emphasis on demand management. The result, inaugurated with more than a little help from supportive political authorities, was what has come to be called the Washington Consensus, the supposed 'policy consensus' of the US leadership and the Bretton Woods institutions, both based in the US capital, Washington, DC. To a great extent, it was based on an ostensibly 'free market' critique of Keynesian and development economics.

There has since been growing recognition of serious problems with the original ideas associated with the Washington Consensus with some revisions as well as the arguably premature declaration in 1998 of a 'post-Washington Consensus' by the World Bank's then Senior Vice President and Chief Economist, the Nobel laureate Joseph Stiglitz (2004). However, critical scrutiny of recent fads in development economics suggest little more than a 'false dawn', especially when compared to the discourse preceding the relatively recent rise of the Washington Consensus, despite all its problems and limitations (Jomo & Fine 2006). But the laws of inertia in ideas are often determined by political conditions. And as far as its ideas and policy influence are concerned, the Washington Consensus has received a new boost with subsequent political developments, including the election of President George W. Bush in 2000.

Challenges to the Washington Consensus

The most important challenge to the Consensus is its failure to deliver on its promise of higher economic growth over the last quarter century. Instead, we have seen significantly lower growth in the world as a whole, not only affecting the developing world, but also the advanced economies. We have seen much lower growth, almost two per cent lower in the last three decades, compared to the 1950s and 1960s (Weisbrot, Naiman and Kim 2000). Meanwhile, high growth has occurred precisely where the policy prescriptions of the Washington Consensus have been resisted. The highest growth region, until the 1997-98 crisis, was East Asia, where most economies hardly qualifies as star pupils of the Washington Consensus.

A growing number of challenges have posed major problems for mainstream economics. There is no time here to go into all this, but the challenges posed by strategic trade theory, for instance, has important implications for development economics. The importance of market imperfections and market failure – due to information asymmetries, for example – is increasingly recognized, especially since the 2001 Nobel Laureates for information economics. Also very important for mainstream economics has been the challenge from post-Keynesian economics and other sources. The Austrian school challenge from the right, with the renewed interest in evolutionary economics, has also raised very important issues.

Another important recent interest has been in 'institutional economics', which has encouraged some economists to embrace more multi-disciplinary and inter-disciplinary work. Although development economics has always been more open than mainstream economics, the renewed interest in institutions is probably welcome despite its often opportunistic and convenient eclecticism as well as vacuous black-box socio-cultural explanations that have become the vogue in recent years. The renewed interest in political economy (especially rent seeking), law, property rights, contracts and social capital have all been similarly promising, but largely disappointing, if not misleading. The joke about the new development economics is that when something is difficult to explain, one can always try 'governance' or 'social capital'. Often, they have become a sort of factor *x* to conveniently 'explain' what cannot be explained by other methods.

Distributional Consequences

Another important global development has been growing inequality, despite what some commentators claim, attributed by most observers to the policy and institutional changes associated with the kind of economic liberalization favoured by the Washington Consensus. Branko Milanovic has decomposed global household income distribution to show that although intra-country inequalities can be very high, most world inequality is explained by international, rather than intra-national inequality, although the latter has been growing and is often high. Instead of 'convergence big time', we have 'divergence big time', dating back to the early 19th century (see Maddison; Bourguignon and Morrison), even though this was temporarily reversed during the post-war Golden Age. There is a large body of literature that suggests that economic liberalization and some key aspects of the multi-faceted phenomenon of globalization have significantly increased income inequality at both national and international levels (e.g. see Jomo

2006). There is also much evidence – e.g. from diverse sources ranging from *Forbes* magazine to the UNDP *Human Development Report* – that wealth inequality is growing even faster than income inequality.

If the greatest sources of global inequality have been international, rather than national, we have to look at the consequences of international economic liberalization -- or globalization -- much more carefully and critically. In this regard, it is relevant to look at five issues: intellectual trade, investment, finance, intellectual property rights and the new international economic governance.

International Trade

The case for trade liberalization has been undermined by growing evidence of widespread ‘jobless growth’, the ambiguous evidence of the employment effects of trade liberalization and the misleading claims of earlier advocates of trade liberalization (Rodriguez and Rodrik). Even Paul Samuelson, the doyen of mainstream international trade theory, has acknowledged what most critics, especially from the South, have long argued, i.e. that trade liberalization does not necessarily ensure welfare gains for all, even in the medium term, but that outcomes instead depend very much on ‘initial conditions’ (resource endowments), the short and long term dynamic consequences of the new international economic specialization as well as economic capacities to take advantage of the new opportunities thus offered.

Many trade issues first raised in the 1950s and 1960s are still very much with us, like the persistent decline of primary commodity prices compared to manufactured goods first identified by Raul Prebisch and Hans Singer over half a century ago. Consider how coffee prices in East Africa and Latin America have dropped dramatically with the advent of Vietnamese coffee production. The list of examples is long. Secondly, W. Arthur Lewis also pointed out many decades ago that the terms of trade for tropical primary commodities have also declined against temperate primary commodities, e.g. cotton versus wool.

Thirdly, and increasingly important in recent decades, generic manufactured products have been experiencing worsening terms of trade, as in East Asia. This appears linked to the declining terms of trade for ‘generic manufactures’ against products with strong intellectual property rights, i.e. officially protected monopolies in an age of ostensible liberalization. For example, the successful entry of low-cost East Asian manufacturers into various electronic component industries not protected by strong intellectual property rights often led to intense cut-throat competition. This has driven prices down as productivity gains have translated into vicious ‘beggar thy neighbour’ cycles. High unemployment and underemployment in China have also served to keep industrial wages down, enabling higher labour productivity – thanks to high investment rates – to lower output costs and even consumer prices.

The conclusion of the Uruguay Round of trade negotiations saw the World Trade Organization (WTO) replace the General Agreement on Tariffs and Trade (GATT) with considerably enhanced powers and a significantly broadened scope of ostensibly trade related matters. Perhaps most importantly, membership of the WTO involves a ‘single undertaking’ requiring compliance with all WTO agreements unlike the previous option under GATT of signing up on an agreement by agreement basis. The WTO has also created and strengthened processes and mechanisms for dispute settlement, that have tended to favour corporate interests and rich country governments who can better afford the legal and lobbying resources to pursue and advance their interests.

The WTO trade agenda has broadened from GATT's focus on manufactures to include services while giving renewed attention to agriculture. Undoubtedly, many developing countries with strong agricultural productive capacities will benefit from less protected markets in the North for their exports. Historically, however, there has been a great deal of hypocrisy – and self-interest – in the rhetoric and practice of trade liberalization. For example, many critics note that the European declared trade liberalization objective of 'everything but arms' has, in practice, involved 'everything but farms'. In any case, the gains from agricultural trade liberalization will mainly benefit a few successful agriculture exporting countries, including those in North America and Australasia, rather than, say, Africa where many gain from subsidized European food prices.

Meanwhile, liberalization of services has mainly involved financial services, rather than construction or maritime services where developing countries are better able to compete. Although the proposed Trade Related Investment Measures (TRIMs) were not fully adopted, the OECD's MAI (Multilateral Agreement on Investment) was aborted and investment liberalization is no longer on the Doha Round agenda, preparations for an MIA (Multilateral Investment Agreement) with similar objectives are said by some to be continuing, although they are not imminent. Meanwhile, the Agreement on Trade Related Intellectual Property Rights (TRIPS) has given transnational corporations greater monopoly powers -- not provided by WIPO, the World Intellectual Property Organization.

On the other hand, regional free trade arrangements as well as bilateral free trade agreements – both, often misleadingly referred to collectively as FTAs -- may inadvertently serve to slow down multilateral trade liberalization although they are often rationalized as building blocks for the latter, or as intended to put pressure to accelerate progress in that direction.

Foreign Direct Investment

UNCTAD's *World Investment Report* of 1999 showed that more than 80 per cent of foreign direct investment (FDI) in the world in the 1990s consisted of mergers and acquisitions (M&As). And as far as the South is concerned, most of these have been acquisitions, rather than mergers. Hence, most FDI is not 'green-field' investment that creates new productive capacity. And while 'green-field' FDI may increase economic capacity, it may also pre-empt the development of indigenous capacities and capabilities, besides draining away much of the economic surplus needed to sustain growth in the medium and long term. Recent pressures for investment deregulation, ostensibly to attract more FDI, have in fact resulted in fewer gains for host economies from incoming FDI owing to the more generous terms and conditions offered. Meanwhile, there has been a decline of global FDI, especially to the South, since the mid-1990s.

International Financial Liberalization

Greater capital flows, due to financial liberalization, have not resulted in net inflows of funds from the capital-rich to the capital-poor. The opposite has, in fact, been the case. The cost of capital has not fallen, while the volatility of the international financial system has grown, due to -- rather than despite -- financial deepening. Meanwhile, the frequency and severity of currency and financial crises have increased. Although some new derivatives have reduced some old sources of volatility (due to exchange or interest rate fluctuations, for example), new sources of volatility have been created by these very same instruments, exacerbated by greater 'financialization' reflected, for example, by the growth of hedge funds.

International financial liberalization has made finance capital much more influential and dominant, exerting severe deflationary pressures on macroeconomic policy throughout the world, which has slowed growth. Financial liberalization has also undermined financial policies, institutions and instruments to pro-actively promote growth of desired firms and industries.

Intellectual Property Rights

Strengthened intellectual property rights have reduced technology transfer, and raised the costs of technological acquisition, and consequently, productivity, growth and competitiveness improvements. Revenue from IPRs is now believed to be the greatest single source of foreign exchange earnings for the USA. Recent studies suggest that this is not just inequitable, but also inefficient. Publicly funded pharmaceutical research in the US, for example, would be less costly, as well as more equitable and efficient than existing arrangements (Baker & Weisbrot, 2003). Of course, stronger assertion of intellectual property rights is a recent phenomenon, dating from the mid-1980s, and analytically contradicts economic liberalism. IPRs confer exclusive monopoly rights and associated incomes to their owners, thus strengthening the monopoly powers of powerful transnational corporations.

International Economic Governance

International economic governance issues have become more important with globalization and international economic integraton. As noted above, the Uruguay Round transformed the WTO into a major agency to promote the liberalization of trade as well as other economic transactions while strengthening regulation to strengthen and enhance transnational corporate interests.

Meanwhile, reform of the international financial system has been difficult, but nonetheless remains urgent. There are no longer any serious efforts to address the international financial architecture after the concerns of the late 1990s following the Asian and Russian financial crises. It took 15 years and a world war before there was reform in 1944 after the Crash of 1929. The IMF and the World Bank were thus created at Bretton Woods to address fundamental problems after that systemic crisis.

In 1971, the Bretton Woods system was unilaterally destroyed by President Nixon, but there has been no systemic reform since despite the growing frequency of currency and financial crises in recent years. With the end of the Bretton Woods system, the IMF has created new roles – and rules – for itself, which need to be critically examined. Unlike the UN Security Council, where five countries have veto powers, only the US has veto power in the IMF. In the Bretton Woods institutions, voting rights favour rich country governments in an archaic system inherited from the end of the Second World War.

The IMF is widely perceived to advocate different policies for large developed economies in contrast to emerging markets and developing countries. The *Wall Street Journal* periodically condemns the Fund for urging the US and Europe to adopt counter-cyclical policies to stimulate their economies, but the Fund rarely urges developing countries to adopt similar counter-cyclical policies. Instead, its macroeconomic and other policy conditionalities and recommendations tend to have pro-cyclical and hence contractionary consequences.

Many observers (e.g. Stiglitz 2002) have also noted that the IMF has made serious policy errors in recent years that have undoubtedly reduced cumulative economic growth and welfare for hundreds of millions of people. In Russia and Brazil in 1998, overvalued exchange rates -- that ultimately collapsed -- caused serious economic damage. Shock treatment and ill-considered transition policies in the economies of the former Soviet Union have, over the last decade and a half, contributed to one of the worst economic disasters in the history of the world, with Russia losing more than half its national income.

The Fund has failed to help devise more effective crisis avoidance safeguards, and IMF involvement has often exacerbated, rather than ameliorated crises when they have occurred. Besides its poor record of crisis aversion and crisis management, it has not significantly enhanced international liquidity to facilitate coordinated reflationary measures to reverse the generally deflationary macroeconomic policies it has encouraged since the 1980s, let alone relieve economic stagnation, poverty and unemployment. Even the IMF Managing Director has been forced to acknowledge East Asian alienation and the need to re-invent the Fund to stay relevant.

William Easterly (2000), then a senior World Bank researcher, has noted that 'The poor in developing countries are often better off when their governments ignore the policy advice of the International Monetary Fund and World Bank'. IMF and World Bank policymakers claim that their reforms often require necessary short-term pain for the sake of long-term gain. According to him, during times of economic growth, the poor did not gain as much in countries in which the IMF lent money as they did in places with no programs, although they were not hurt as badly in recessions. Meanwhile, China, India and other countries in East Asia that have not followed IMF economic programs and prescriptions have seen more of their people lifted out of poverty in times of economic growth than have nations that take the advice of the Washington-based lenders.

Hence, the Washington Consensus cannot point to any region in the world as having succeeded by adopting the policies that they promote or require in borrowing countries. Understandably, they are reluctant to claim credit for China, which maintains a non-convertible currency, state control over its banking system, and otherwise contradict standard Washington Consensus prescriptions. If globalization and other policies promoted by the Washington Consensus have not led to increased growth, it becomes extremely difficult to defend these policies. The costs of these changes—the destruction of industries, unemployment and lower incomes, besides the harsh 'austerity' medicine often demanded by these institutions and by international financial markets—become burdens to society and setbacks to economic development without any compensating benefits.

Meanwhile, domestic financial institutions and policies -- so crucial to earlier developmental efforts (Gerschenkeron 1962) -- have been reduced, if not undermined by financial liberalization. Yet, recent IMF research now concedes that international financial liberalization has not contributed to growth while increasing monetary and financial instability. Yet, IMF operations in most countries do not seem to have recognized the policy implications of its own research.

Lower tax revenues and increasing insistence on balanced budgets or fiscal surpluses have also generally constrained government spending, especially what is deemed social expenditure, with some deflationary consequences. Privatization in many countries temporarily increased government revenues, enabling governments to temporarily balance budgets or have surpluses on the basis of one-off sales incomes. Such budgetary balances are clearly unsustainable, but have succeeded in, at least temporarily, obscuring the imminent fiscal crises such policies may lead to.

In the meantime, structural adjustment programs (SAPs) and now poverty reduction strategies (PRSs) have been used to promote economic liberalization, with adverse consequences for the developing world. Meanwhile, developing countries are much more divided today because much of the burden of the HIPC initiative is actually borne by middle-income borrowing countries, rather than only by the rich creditor countries – as is widely believed.

Of course, the ostensible current focus on poverty reduction is better than the earlier emphasis on stabilization, adjustment and liberalization, but much of the recent discussion of poverty reduction is palliative, rather than developmental in nature, focussing on welfare and distribution without creating conditions for sustainable economic progress. On the other hand, there is widespread suspicion that including poverty on the economic development reform agenda has basically served as sugar-coating on the Bretton Woods institutions' economic liberalization agenda despite their by now well known in-equitable and contractionary consequences.

The failure of the Washington Consensus to rise to the challenge of human development, especially in the South, requires us to go well beyond its research, analytical and policy agenda. Instead of just adding poverty, or institutions, or governance, or social capital, or culture, or whatever the new policy 'flavour of the month' may be, commitment to rigorous economic analysis as well as egalitarian, balanced and sustainable development requires not only critical analysis of Washington Consensus analyses and policies as well as their consequences, but also of the alternatives currently on offer in order to develop feasible and viable development alternatives appropriate and equal to the challenges at hand.

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Sen, McCloskey, and the Future of Heterodox Economics

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Introduction

Heterodox economists are in the midst of a critical transition. The long-standing goal of developing a "single correct alternative to neoclassical economics" (King 2002) is increasingly giving way to pan-paradigmatic agendas and forums such as the Post-Autistic Economics Network, the Association for Heterodox Economics, and the International Confederation of Associations for Pluralism in Economics (Dow 2000, Lee 2002, Fullbrook 2003). This dispositional shift is stirring new controversies about the future of school-of-thought organizations (Rutherford 2000), the meaning and importance of pluralism (Sent 2003, Davis forthcoming, Davidson 2004), and the mission and identity of heterodox economics itself (Ancochea 2004, Dow forthcoming). What exactly do we stand for as heterodox economists? What are our chief intellectual priorities? Are we paradigm warriors, first and foremost? Or are we pluralists, seeking to promote intellectual tolerance and critical engagement among diverse points of view? These basic questions sit unsettled today, and understandably so, as many heterodox economists remain fiercely committed to the pluralist ideals of liberal inquiry as well as to the paradigmist dream of having their own theoretical perspective become the new master framework, the new "general theory," to which all other theories would be subsumed as special cases.

In a previous essay in this *Review*, I outlined these contrasting approaches to heterodoxy and offered an assessment of their strengths and liabilities for the future of heterodox economics (Garnett 2005). The central argument was twofold: (1) leading non-mainstream economists (including some who profess to be pluralists) are still deeply invested in oppositional paradigm building, viewing heterodox economics as primarily a search for demarcation criteria (conceptual, ontological, methodological, or epistemological) that would render heterodox economics distinct from and superior to orthodox (mainstream) economics; and (2) heterodox economists would be better served by a principled, egalitarian pluralism – a pluralism committed to intellectual tolerance and diversity as well as to capabilities-enhancing reforms "in the character of scientific debate, in the range of contributions in [professional economic] journals, and in the training and hiring of economists" (Hodgson, Mäki, and McCloskey 1992) so that "alternative economic work is not simply tolerated, but . . . the material and social conditions for its flourishing are met, to the same extent as is currently the case for mainstream economics" (Cambridge 27, cited in Fullbrook 2003, 36).

This paper proposes a philosophical framework for an egalitarian pluralist economics, combining Deirdre McCloskey's vision of science as a pluralistic conversation (McCloskey 1998 and 2001) with Amartya Sen's capability-centered view of human development (Sen 1999). From a Sen/McCloskey standpoint, the principal goal and tool of economic inquiry is intellectual freedom, defined in a dual Smithian sense: negative freedom from the tyranny of a prescribed Method for economic knowledge production, and positive freedom to live a choiceworthy intellectual life.[1] This freedom-centered, capabilities-minded view of academic discourse as a "civilized conversation among equals" (McCloskey 2001, 107) opens the door to a liberal rethinking of science in which the paradigmist and pluralist impulses of contemporary heterodoxy can be productively reformulated and rejoined. Such an approach is one that all economists, especially heterodox economists, can and should embrace.

Foundations: McCloskey and Sen

McCloskey's contributions to heterodox economics are often overlooked due to her strong self-identification as an "old Chicago" economist. Yet McCloskey's trenchant criticisms of modernist methodologies and epistemologies – the official grounds on which mainstream economists ritually dismiss non-mainstream work as "not serious" or "not economics" – make her a natural ally of the heterodox economics movement (Garnett 2004). Her writings deserve attention in the present discussion because they offer the strongest arguments to date for the scientific virtues of a pluralist economics.

In barest essentials, McCloskey's pluralism begins with a Scottish Enlightenment conception of science as a marketplace of ideas, an "economy of intellect" (McCloskey 1998, 28). Like Hayek and other classical liberals, she sees science as a market-like conversation in which the "interaction of individuals, [each] possessing different knowledge and different views . . . constitutes the life of thought" (Hayek 1944, 165).[2] McCloskey's unique contribution is her rigorous unpacking of the assumptions, logic, and implications of this free-market philosophy via a rhetorical theory of intellectual exchange. In McCloskey's view, the best way to facilitate scholarly exchange is not by enforcing a uniform ontology or methodology but by cultivating a set of liberal arts virtues that she calls "rhetoric" but might also be called "pluralism." Just as Adam Smith argues that the wealth of a nation depends on the extent of its markets, McCloskey argues that an academic community's knowledge depends on the willingness and ability of its members to listen and speak to one another, i.e., "our ability to engage in continuous conversation, testing one another, discovering our hidden presuppositions, changing our minds because we have listened to the voices of our fellows" (A. O. Rorty 1983, cited in McCloskey 1998, 163).

McCloskey stresses the intellectual responsibilities entailed by a serious pluralism. As individual knowledge producers, we are free to use whatever tools are available in our efforts to make intelligent contributions to scholarly conversations. At the same time, one's own enjoyment of this liberty entails a pluralist duty to foster it in the academic lives of one's colleagues, not just by tolerating their ideas but by reading and engaging them in a spirit of intellectual humility, refusing to discriminate against propositions on the basis of intellectual pedigree. Again McCloskey: "What distinguishes good from bad in learned discourse . . . is not the adoption of a particular methodology, but the earnest and intelligent attempt to contribute to a conversation . . . You can tell whether [an argument] is persuasive only by thinking about it and talking about it with other thoughtful people. Not all regression analyses are more persuasive than all moral arguments; not all controlled experiments are more persuasive than all introspections" (McCloskey 1998, 162 and 177). McCloskey believes that academic pluralism, when practiced in earnest, allows our disciplines and subdisciplines to progress in terms of "understanding, self-understanding, and mutual understanding or agreement" (Madison 1994, 206) despite the absence of a common ontology or analytic framework.[3]

McCloskey's pluralism thus promotes critical engagement and accountability rather than "anything goes." This is a steady refrain in McCloskey's writings. She does not assume that all knowledge claims are (or should be treated as) equally valid. The only universal precept is the "demand that we persuade each other" (McCloskey 1994, 310). Over time, she argues, this ethical/scientific requirement gives rise to intellectual standards: “communally accepted criteria as to what counts as a rational argument” (Madison 1994, 205). These standards emerge not from the armchairs of economic philosophers but from “open, reasonable, fair, patient, *sprachethiklich* conversation” (McCloskey 1994, 304) and “informed judgment, guided by broad and evolving principles of assessment” (Hausman and McPherson 1988, 6).

McCloskey’s pluralism is mostly silent, however, on the controversial question of how (or whether) to reform the institutional hierarchies within academic economics to create a more competitive marketplace of ideas.

The openness of [rhetorical pluralism] gives voice to minority opinions. To this extent [rhetorical pluralism] is hostile to the mainstream . . . But [rhetorical pluralism] is not intrinsically hostile to the mainstream. [Rhetorical pluralism] can be used to force the dominant groups to face up to institutionalism or Marxism or feminism or Austrianism, as they should. But nothing inside [rhetorical pluralism] itself implies one or the other view (McCloskey 1994, 394).

McCloskey urges heterodox groups to challenge the arrogance of the mainstream head on, not by erecting rigid paradigm barriers of their own but by embracing the ethos of intellectual free trade, “a catholic rhetoric that encourages neoclassicals, Marxists, institutionalists, Austrians, and the other students of mankind in the ordinary business of life to gain more persuasive knowledge” (ibid. 178). On occasion, McCloskey has been critical of the labor market discrimination and other exclusionary practices that unjustly limit the professional opportunities of non-mainstream economists (Klamer and McCloskey 1989, McCloskey 2003). In the main, however, she believes that the current structure of the discipline satisfies the institutional requirements for free speech, and that a greater rhetorical self-awareness among economists will suffice to actualize her normative vision of economics as a “civilized conversation among equals” (McCloskey 2001, 107).

Precisely here, on the question of how to promote substantive equality in the intellectual marketplace, Sen’s capabilities approach becomes a vital complement to McCloskey’s pluralism.[4] Sen’s work speaks mostly to human and economic rather than intellectual development. But his fundamental concepts and assumptions – particularly “the central (intrinsic) value of freedom itself” (Sen 1999, 28) and the notion that wealth is valuable not in itself but as a “general-purpose means for having more freedom to lead the kind of lives we have reason to value” (ibid. 14) – are easily extended to the intellectual realm. The key premises of an academic/scientific capabilities approach would be threefold: intellectual freedom is “the primary end as well as the principal means” of intellectual progress (ibid. xii); knowledge is not valuable in itself but as a “general-purpose means for having more freedom to lead the kind of lives we have reason to value”; and intellectual development consists of “the removal of various types of unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency” (ibid. xii).From Sen’s “development as freedom” approach, then, we derive a notion of “learning as freedom” in which “the removal of substantial unfreedoms” is both intrinsically and instrumentally linked to intellectual development, as an important part of what intellectual development *is* and, equally, an important part of what creates and sustains intellectual development (ibid. xii).

A Sen-based pluralism would therefore take us beyond the “marketplace of ideas” to the constellation of institutional circumstances that affect a person’s ability to exercise his or her academic freedoms. It suggests a broad normative criterion by which the efficacy of any academic discipline should be judged: namely, the effective freedom of its members to achieve such vital ends as literacy (the ability to read, think, and speak effectively within their discipline), the ability to choose and move freely among alternative theoretical traditions, or the ability to participate with dignity in the public life of their profession.[5] Do prevailing institutional arrangements enable all members of the discipline to achieve these ends – hence to lead good intellectual lives – if they so choose? If not, then the disciplinary community (broadly defined to include the schools, colleges, and universities within which economics departments reside) has an obligation, in the name of science and academic freedom, to alter its educational, scholarly, and professional norms to enhance the capability of individuals to achieve these essential intellectual functions (Burczak forthcoming).[6]

Of course, the ultimate purpose of academic economics is not just to enhance the welfare of economists but to promote human betterment in a larger sense (Hutchison 1992, Klein 1999). While it is beyond the scope of this paper to consider the degree to which the goals of academic economists align with those of their various stakeholders, hence the degree to which "what's good for economists is good for society," my working assumption is that the social value of economic scholarship and teaching would be increased substantially if capabilities enhancements such as those proposed by the Post-Autistic Economics movement were to be enacted. This coincides with Sen's argument that increases in substantive freedom typically generate indirect (spillover) benefits for the communities in which individuals participate. "Expanding the freedoms we have reason to value not only makes our lives richer and more unfettered, but also allows us to be fuller social persons, exercising our own volitions and interacting with – and influencing – the world in which we live" (Sen 1999, 14-15).

To summarize: The goal of economic science from a Sen/McCloskey perspectives is to increase the intellectual capabilities of economists and the various stakeholders who rely on economic scholarship and teaching as important resources (students, policymakers, citizens, civic leaders, business leaders, and so on). Further, the achievement of this objective requires no common ontological, methodological, or analytical foundation. The key, rather, is pluralism, both in the actions and attitudes of individual economists and in the norms and practices of our academic communities. The latter requires an active commitment to economic pluralism by professional associations, academic departments, and university administrators, as well as the non-academic institutions from which economists receive financial support (governments, foundations, and think tanks) "to ensure that the material and social conditions for the flourishing of pluralism are met."

Consequences: Rethinking Pluralism, Paradigms, and Economic Science

A Sen/McCloskey perspective makes it possible to recast the nature and importance of paradigms and pluralism in economics. Most orthodox and heterodox economists still subscribe to modernist, Cold War epistemologies in which "science" is primarily a tool of demarcation and exclusion: a way of separating valid from invalid ways of knowing (McCloskey 1994, 55-70; Fullbrook 2001). A Sen/McCloskey approach, in contrast, highlights the liberal face of science. It shifts the goal of science from intellectual victory (Us over Them) to the expansion of intellectual freedom for Us *and* Them, i.e., our fellow economists, students, and other stakeholders. From this standpoint, scientific progress is about advancing the conversations of our various learning communities through critical engagement among diverse ways of thinking. This leads to a different view of how paradigms and pluralism each contribute to learning and discovery in the continuing conversations – the science – of economics.

With regard to pluralism, a Sen/McCloskey approach helps to clarify the conceptual meaning and requirements of a pluralist economics. As Backhouse observes, academic pluralism has both individual and social aspects (Backhouse 2001). It requires methodological awareness and tolerance by individual scholars as well as a set of institutional conditions embodied in "the organization of the academic community, how individuals operate within it, [and] its relationships to other communities and to the society at large" (Backhouse 2001, 166).

A Sen/McCloskey approach would also help to articulate the scientific importance of pluralism by highlighting its central role in intellectual development. As Sen would say, pluralism (qua intellectual freedom) is an intrinsic part of what intellectual development is. One mark of progress in a scientific community, he would argue, is the degree to which its members understand their rights and duties as a member of a larger discourse community. The widespread acceptance of these pluralistic norms would allow individuals to enjoy more intellectual freedom and, in Hayek's words, to "work with people whose moral values differ from our own . . . [and] to build a peaceful society with a minimum of force" (Hayek 1960, 398).[7] Pluralism also fuels scientific creativity over time, both by preserving methodological diversity (Samuels 1997, Dow 2001)[8] and by helping to curb the excesses of paradigmism – the recurring tendency of paradigm communities to become so enamored of their particular theory or methodology that they begin to see it as the new General Theory, e.g., the current enthusiasm for evolutionary frameworks that view the economy as a "complex adaptive system" (Potts 2000, Colander, Holt, and Rosser 2004). As Fullbrook reminds us:

> Accepting pluralism on epistemological grounds requires from everyone taking part a sacrifice. One must surrender the dream . . . which I suspect has infected each of us from time to time, that of believing that our particular approach to or tradition of economics is or could become THE economic truth. Once people sacrifice this conceit and put their heads and good-wills together, many things become possible (Fullbrook 2005).

With regard to paradigms, a Sen/McCloskey view of science casts new light on the value of paradigm communities, especially those outside of the mainstream. It sees paradigm communities as generators of intellectual capabilities that otherwise would not be available to certain individuals or groups. Further, it sees the empowerment of these voices as a vital prerequisite for a scientifically productive pluralism. A group that is able to establish an identity as a distinct school of thought is afforded a place to stand, a right to exist, a means to appear without shame in the public space of academic conversation. This is quite distinct from the paradigmist pursuit of scientific hegemony. Even McCloskey, despite her ambivalent view of "schools," is willing to grant that paradigm communities can be effective incubators of pluralist sensibilities and intellectual growth:

> How do you think schools [of thought] form in economics? A group talks intensively to each other, respectfully . . . They allow each to influence the other. They stop sneering and start listening. I've seen it happen. . . . Such a community comes to have few disagreements, if the talking goes on long enough (Klamer and McCloskey 1989).

In addition, a Sen/McCloskey perspective would challenge the common assumption that paradigms are or should be single-minded schools. Paradigm communities need not possess a unified framework or worldview in order to enhance the intellectual capabilities of their members. More likely, the converse is true. To best enhance their intellectual capabilities, it may be best for paradigm groups *not* to be so single-minded. Sent argues, for example, that mainstream economics in the postwar period derived considerable vitality from its inability to forge a unified theoretical core (Sent forthcoming, 6). I believe this has been the experience of many heterodox school-of-thought organizations as well. According to Yngve Ramstad, this is precisely the story of the AFEE/AFIT institutionalist community:

> '[I]nstitutional economics' is actually nothing more than a summary term for analysis that originates on the same side of several 'great divides' . . . Thus [it] remains today what it has always been, a friendly alliance between those who proceed to build concepts, theories, and models from the same side of several or all of [these] 'divides' (Ramstad 1989, 771).

[W]e should put an end to our defensive preoccupation with articulating a precise statement of the institutionalist paradigm [and] . . . face squarely the fact that we are a catholic movement comprised of multifarious groups with some fundamental disagreements (Ramstad 1995, 1004).

Inasmuch as it serves to decenter paradigmist goals and identities, a Sen/McCloskey approach could help to breathe new life into heterodox paradigm communities. Many school-of-thought groups are currently undergoing difficult generational transitions, seeking to renew and reinvigorate themselves without losing their core identities (Rutherford 2000, 186). Rutherford claims that these groups must make greater commitments to pluralism if they wish to remain "vital, interesting intellectual forums" (Rutherford 2000, 187). Institutionalists, for example, must be "open to work that is broadly consistent with institutionalist themes, even if it derives from sources other than the recognized founders of American institutionalist economics" (ibid. 187). Hoksbergen agrees, arguing that institutionalism will become "a stronger, richer, and more meaningful tradition" only if its members become less inclined to see their group as "a rival and potentially a superseding competitor to neoclassical economics as it has often done in the past" (Hoksbergen 1994, 707).

Across the heterodox landscape today, one sees many signs of pluralist rethinking within and across many school-of-thought communities. An exemplary statement of this pluralist tendency appears in the editor's introduction to the new *Journal of Institutional Economics*:

> In recent years there has been a welcome and growing dialogue of ideas from the old and new traditions of institutionalism. . . . These developments open up new grounds for a fruitful and exciting conversation between old and new institutionalism [as well as] several other important schools of thought – including evolutionary economics and constitutional political economy – that have similarly focused on the nature and role of institutions. . . . The *Journal of Institutional Economics* has been established in the belief that dialogue and diversity are important engines in the evolution of scientific inquiry (Hodgson 2005, i-ii).

Hodgson's institutionalists are not alone. Similar signs of internal diversity and external openness are visible in the paradigm communities of Marxian economists (Amariglio, Callari, Resnick, Ruccio, and Wolff 1996), Austrian economists (Boettke and Prychitko 1994), social economists (Davis 1994), and many other branches of economic heterodoxy.

Finally, a Sen/McCloskey pluralism offers a fruitful new angle on the old dilemma of how to embrace pluralism without sacrificing scholarly standards. A common fear about pluralism, often expressed as a critique of postmodernism, is that it threatens to erode scholarly standards by promoting the relativist notion that "standards are relative to specific discourse communities, and . . . work should be appraised [only] from within the relevant community" (Backhouse 1998, 144). But pluralism need not entail such intellectual autarky. Pluralism assumes only that "after weeding out all of the many concepts and philosophical systems that can be rejected on one or another ground, a plurality of acceptable philosophies is likely to remain" (Robert Nozick, cited in Nelson 1991, 268; see also Seabright 1993, 393). The difficult question is how to enact such a critical pluralism in fields and subfields riven with paradigmatic disagreements.

This problem emerges concretely in the process of peer review. Reflecting on their interdisciplinary co-editorship of *Economics and Philosophy* in the late 1980s, Hausman and McPherson (1988) confess to finding intradisciplinary paradigm differences much more difficult to navigate than differences across disciplines. "The sharpest divergence in terms of standards has lain . . . between different schools of economists. . . . [W]e have generally shied away from refereeing across schools, precisely because the differences are so sharp and so predictable and the results so generally unhelpful" (Hausman and McPherson 1988, 3). These problems would not be so severe if there were some semblance of transparadigm agreement about methodological and epistemological norms in economics. Yet each of these meta-economic fields is a contentious conversation unto itself, with no consensus rules or guidelines. Hence there is no easy resolution to these evaluative dilemmas. Backhouse recounts similar experiences from his editorship at the *Economic Journal* (Backhouse 1994). In addressing the issue of standards, he says, we must recognize the reality of "paradigm bias." At the same time, one cannot resolve this problem by adopting balkanized editorial procedures (e.g., Marxian articles can only be read by Marxists). It is better to mix and match, though one then runs the risk of being criticized (and understandably so) for stacking the deck against authors whose submissions were rejected by reviewers from rival schools of thought.

The underlying problem here is that today's academic economists often lack the pluralist capability to evaluate work beyond their own narrow fields of expertise. Their economic education has not given them sufficient knowledge or intellectual humility to read effectively across methodological boundaries. This is the very conclusion reached by Backhouse. He suggests the need for capabilities-enhancing reforms in economic education in order to produce more scholars who are capable of fair-minded peer review. The ideal reviewer, he writes, would be a scholar "whose position is different from that of the . . . author, but who [is] prepared to treat [the work] sympathetically as well as applying high critical standards" (Backhouse 1994, 116).

A Sen/McCloskey pluralism would help to highlight and address these deficiencies in the intellectual capabilities of Ph.D. economists. More generally, it would aim to address the problem of relativism through the promotion of critical thinking and competition among diverse points of view. Inasmuch as relativism entails a lack of effective intellectual competition – in the mind of a single scholar or within a community of scholars – it can be addressed by creating a more capabilities-rich academic environment in which individuals have access to ample supplies of intellectual options, and are able to exercise reasoned choice among these options. The latter requires (rather, is) critical thinking: a commitment to the empathetic yet skeptical treatment of all perspectives, including one's own (Paul and Elder 2001, 1-4). A Sen/McCloskey approach would support the expansion of these essential capabilities among undergraduate and graduate economics students – tomorrow's economists – via curricular reforms such as those proposed by Hodgson (2002) to enhance social science literacy by "[restoring] the possibility of taking a more general view, while retaining specialist expertise." "Just as the requirement of mathematics is now virtually universal, so too should be some philosophy, and relevant parts of the history of ideas" (Hodgson 2002, 132).

Toward a Better (and More Heterodox) Economics

Heterodox economists would be better positioned to exercise leadership in the movement toward a genuinely pluralistic, multi-perspectival (*hetero-dox*) economics if they were to adopt a capabilities-oriented pluralism such as the one outlined above. Rather than bearing the heavy burden of an oppositional, anti-mainstream stance, heterodox advocates of a Sen/McCloskey approach could operate from the positive, intellectually open position of liberal political economists – committed, perhaps, to their own paradigm-based projects, but also to a pluralist vision of economics as a "civilized conversation among equals" and to ongoing reforms in economic education and scholarship to better approximate this ideal.[9] In addition, the embrace of an egalitarian/libertarian philosophy of inquiry would place heterodox economists on the very ground floor of modern economics, arm-in-arm with Smith, Marx, Keynes, and other economic champions of human freedom who argue that the amelioration of entrenched inequalities is a basic pre-requisite for a genuinely free society (in the present case, a society of scholars).[10] Such an approach would give heterodox economists a stronger foothold within our disciplinary discourse.

Of the challenges and opportunities before us, none is greater than the need to provide better learning environments for future generations of economics thinkers. I agree with Craufurd Goodwin that teaching is the most important social role of professional economists today (Goodwin 2000). Yet many economic educators and curricula, undergraduate and graduate, are sorely unprepared to fulfill it. "The growth of formalization and mathematization and the high degree of uniformity in undergraduate and graduate curricula, and in the leading textbooks" has created a pedagogical crisis in which "the narrowness of standard economic training is under attack even from within the mainstream profession" (Coats 2000, 145; Rutherford 2000, 186). There are growing demands for more real-world complexity and critical thinking in economic education (Earl 2002, Feiner 2002), especially at the graduate level where received curricula are arguably most dysfunctional in terms of the future of our discipline (Fullbrook 2003). Herein lie many opportunities for heterodox economists to exercise leadership in their classrooms and in the promotion of new economic pedagogies, degree programs, and other initiatives.

A Sen/McCloskey pluralism offers a powerful impetus and rationale for these reforms, especially in the U.S., where an unlikely alliance has begin to emerge between critics of standard economic education and an influential student rights group, Students for Academic Freedom. The SAF agenda rose to national prominence with the publication of their Academic Bill of Rights in 2002, stressing the duty of U.S. colleges and universities "to secure the intellectual independence of faculty members and students, and to protect the principle of intellectual diversity."[11] The classical liberal principles of the Academic Bill of Rights are nothing new. Its provisions parallel the well-established American Association of University Professors' definitions of academic freedom (American Association of University Professors 1940 and 1987). But the vigorous reassertion of these principles across the humanities and social sciences today makes this an opportune time for heterodox economists to ask, "What does the 'intellectual independence of faculty and students' and the 'protection of intellectual diversity' require in graduate and undergraduate *economic* education?" Heterodox economists should be among the leaders in this effort, working to ensure that every economics degree program is both expected and able to provide "an environment of intellectual diversity that protects and fosters independence of thought and speech" (Students for Academic Freedom 2002).

Backhouse (2001) and Davis (forthcoming) argue that broad "liberal arts" values such as academic freedom are weak grounds on which to challenge mainstream ideas and practices. Yet I wonder (as McCloskey, Dow, and Fullbrook may also wonder) if perhaps the "weakness" of these classical principles might also be their strength – as ideals that are widely accepted, that allow heterodox economists to exploit their comparative advantages in liberal arts education, and, not least, that focus on the needs of students and other stakeholders, not just those of heterodox economists (Ancochea 2004, 19).

To return to the main argument: A thoroughgoing philosophy and politics of pluralism may have been a terrible mistake for heterodox economists 20-30 years ago. It is not today. Thanks to our own human capital investments and the wholesale abandonment of economic history and the history of economic thought within many Ph.D. programs since the 1980s, heterodox economists currently possess a comparative advantage in intellectual literacy over many of their mainstream colleagues. This presents heterodox economists with an historic opportunity to re-engage a discipline that is struggling to retain its relevance in a post-Cold War world of "necessarily mixed" economies (Hodgson 1995 and 1998) where formerly dominant "-isms" (socialism, communism, capitalism, neo-liberalism) are dissolving and evolving into unexpected fragments and combinations, and the 20th-century dream of "reaching for heaven on earth" through the rational design and control of national economic systems has arguably come to an end (Havel 1992, Cullenberg 1992, Nelson 1991, Gibson-Graham 1996). The active embrace of a Sen/McCloskey pluralism would also encourage heterodox economists to liberate themselves from the all-encompassing priorities of Cold War oppositionalism (anti-neoclassicism, anti-capitalism, anti-socialism, and so on) that are illiberal and increasingly self-defeating. Dichotomous distinctions such as right/left, market/state, and neoclassical/non-neoclassical continue to limit our analytical range and insight. In the apt words of the late Don Lavoie, "it is time for these more liberal elements of the left and right sides of the old political spectrum to transcend the confines of these obsolete ideologies and work together to articulate a new vision of the free society" (Lavoie 1994, 283).

By rethinking their oppositional identities, heterodox economists can remove important barriers to their own intellectual development and work more effectively to restore the freedom (for themselves and their stakeholders) to practice a "genuine pluralism" that last predominated during the interwar period when "[e]conomists felt at liberty to pursue their own individual combinations of ideas" (Morgan and Rutherford 1998, 4). This will require us to demonstrate, again and again, that non-mainstream ideas deserve more space and respect within economics courses, degree programs, journals, and professional meetings, not on the grounds that "we're right and they're wrong" but because the inclusion of a broader spectrum of economic perspectives is better for our students, our colleagues, and the future of our discipline.

Notes

1. A Sen/McCloskey vision of economic science closely parallels Adam's Smith view of the moral and institutional requirements for a free society and free speech (Evensky 1993). This "heterodox" view of Smith is corroborated by the recent work of Harpham (2000), Blaug (2001), and Wight (2002).

2. See also Foss and Loasby (1998, 11).

3. “The purpose of dialogue in either the ordinary conversational sense or in the forms it assumes in various specialized disciplines . . . is to arrive at a common agreement on a certain issue” (Madison 1994, 206).

4. This discussion is indebted to the innovative extensions of Sen’s capabilities approach by DeMartino (2003) and Burczak (forthcoming).

5. As noted by Davis (2002), Nussbaum (2003), and Burczak (forthcoming), Sen’s framework does not resolve the vexing question of how and by whom the list (and rank-ordering) of relevant capabilities and functionings is to be determined in particular situations. Sen’s prefers to leave his framework “open-ended” in this way, to make it “potentially more serviceable to a wider range of applications” (Sen 2004, 487). In contrast, Nussbaum (2003) argues that it is both possible and ethically crucial to define, though intercultural dialogue, a minimal set of universal human capabilities. In the present context, this suggests the possibility of establishing minimal requirements for a “good academic life” through ongoing intra- and transdisciplinary conversations.

6. Hill (2003) proposes a similar extension of Sen, to examine “the role of institutionalized power in causing and perpetuating inequalities in individual opportunities to achieve.”

7. “There are many values of the conservative which appeal to me more than those of the socialists; yet for a [classical] liberal, the importance he personally attaches to specific goals is not sufficient justification for forcing others to serve them” (Hayek 1960, 398).

8. See also Colander, Holt, and Rosser (2004) on the pivotal role of non-mainstream “edge” research in the process of scientific discovery and the growth of knowledge.

9. Backhouse (2001) and Lee (2005a and 2005b) suggest several avenues for capabilities-enhancing reforms, to redress the discriminatory treatment of heterodox economists and their ideas within the current social structures of academic economics in the U.S. and U.K.

10. This is one of Sen’s major themes: the Aristotelian dimensions of Smith’s political economy and how they are interwoven with the negative libertarianism to which Smith’s project is commonly reduced (Pressman and Summerfield 2000, Walsh 2000).

11. The Academic Bill of Rights was approved in principle by the 108th Congress, 1st Session, House Concurrent Resolution 318 (October 30, 2003).

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Criticizing Dow and Chick's Dualism:

The case of the duals "rational – irrational" in the stock market

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Introduction

Sheila Dow and Victoria Chick object to the mode of argument based on "duals". In particular, they reject the mainstream practice of reducing every situation in which decisions are taken to one of certainty or risk. Following Keynes, they, like all post-Keynesian economists, privilege those (more realistic) situations in which uncertainty prevails. As far as real economies are open systems, uncertainty is ubiquitous, and the dual "rational – irrational" is no longer applicable, and its relevance as analytical tool vanishes. But Dow and Chick do not stop here. They also want to criticize those who hold that no decision may be called rational under uncertainty, a view that, according to them, is just another form of dualism.

Against both kinds of dualistic thinking, they assert that under uncertainty human behaviour may still exhibit different degrees of rationality, a claim founded on the inductive logic developed by Keynes in his *Treatise on Probability*. Dow and Chick seem to think that Keynes' early views are still alive in his *The General Theory*, and find in this continuity the means for moving beyond dualism.

In this article I argue, (1) that inductive logic is still unfounded and is absent in the General Theory; (2) Dow and Chick's proposal for moving beyond dualism is not compatible with Keynes' own vision regarding investment decisions, which seems to be dualistic in Dow's terms; and (3) that the attempt to bring into existence some form of rationality under uncertainty has heavy costs in terms of economic policy.

Two types of decisions

If an individual action performed in a certain situation S is to be labelled by one of the twin concepts that conform to the "dual" "rational – irrational", there are at least two requirements:

> a) There is a set of actions X, which is a subset of the many reactions Y that the subject could manifest in such circumstances. X only contains those actions which are a *pertinent* response to the problem posed by S. To split off X from Y a demarcation criterion is required.
>
> b) As the actions that belong to X are pertinent, but not necessarily *adequate*, a second criterion is needed to identify those actions which are to be considered properly rational.

Clearly, any other response that individuals could perform that is not pertinent to S, can not be labelled as rational or irrational. They may be considered as *non-rational*, which also means that they are not irrational.

Many – but not all – situations in which people have to decide fit both requirements. Suppose first that an individual has to pick up a red ball from one of two boxes in one attempt. He knows that the first box contains 100 red balls and 10 white balls, and that the second one contains 10 red balls and 100 white balls. The set of actions X permits only two types of actions: pick up a ball from the first box or pick up a ball from the second one. In this situation, it is rational to choose the first box (and irrational to select the second one). But in the process of doing what is pertinent, the situation allows (and in some cases demands) one to perform some other actions, which could be called "collateral" actions. Some of them are necessary (for example to walk towards the box or introduce a hand into it), and others may be completely accidental (for example, to swallow or touch one's hair before the choice is made). These collateral actions are not to be considered rational or irrational regarding S. In our terms, they should be considered non-rational.

In some other situations, however, it is not possible to identify unambiguously the adequate answer or the set of pertinent responses. If, as before, the subject has to pick up a red ball from one of two boxes, but knows nothing about their content, there is no way of applying the term "rational" to his preference of the first box and "irrational" to his preference of the second. And if a more complex situation is designed, in which he is informed that there are some hiding devices programmed to throw out to his hands a red ball in response to a certain conduct of his part (whose nature remains unknown to him), nothing he can do may be counted as rational (or irrational). Sitting down could be the right response. In such a situation *every action* should be considered *non-rational*.

What being dualistic and anti dualistic means

In Dow's *The Methodology of Macroeconomics*, dualism is defined as "the propensity to classify concepts, statements and events according to duals, as belonging to only one of two all-encompassing, mutually exclusive categories with fixed meanings: true or false, logical or illogical, positive or normative, fact or opinion, and so on" (Dow, 1998, p. 16)[1].

According to Dow, dualists think by means of pairs of concepts (called "duals") and their arguments are directed to defend one of its poles. Taking the dual "criteria of scientific demarcation – no criteria" Dow distinguished two forms of dualism. Traditional methodology is dualistic because it states some (universal) criterion for telling science from non science. But Constructivism is also dualistic because it rejects any criteria. Dow says that Constructivism is a dualistic reaction against the original dualistic position of orthodox methodology. There would be, it seems, dualistic positions and dualistic criticisms of them.

Going back to the two types of situations described in the previous section, it is easy, at first, to link them with relevant economic situations[2]. Risky contexts fit very well the kind of circumstances described in the first case. The second case, on the contrary, corresponds to those situations called deep uncertainty by post-Keynesian economists. Mainstream economists models all decisions as instances of the first case, while post-Keynesians focus on those situations in which uncertainty is pervasive and see elections as instances of the second case. If I am right, both, mainstream economics (that focus on certainty and risk) and post-Keynesian economics (that privilege uncertainty) *are dualistic* in Dow's terms (which are also Chick's). And to be consistent, they should reject the economic relevance of both scenarios. Dow and Chick, however, do not agree with my interpretation. They would say, instead, that what is dualistic is my own interpretation of uncertainty as being like the second case, and would vindicate a *non dualistic* view of uncertainty, that, in their view, conforms the kernel of post-Keynesian thought. The problem, then, is what does to have a non dualistic view of uncertainty mean?

To clarify her proposal Dow brings in the Hegelian triad. The Thesis asserts that all choices qualify as rational or irrational. As we saw, this claim presupposes that two different criteria are available (one to separate the class of pertinent responses from the rest, and another to discriminate inside the pertinent set). The Anti-thesis posits that no behaviour is rational or irrational. As far as there is no criteria whatsoever for separating behaviour in different sets, all conduct should be labelled as *non-rational*. If the original dualistic position is the Thesis and its dualistic rejection the Anti-thesis, to be anti-dualistic is to go beyond both views. This is the Synthesis, according to which each behavior considered can not be called completely rational or irrational. There are, rather, different degrees of rationality which allow us to order decisions along a scale[3]. Possibly, what Dow has in mind is the inductive logic that Keynes tried to develop in his *Treatise on Probability*.

From the *Treatise on Probability* to *The General Theory*

To highlight how Dow misrepresents the possibility of deciding rationally under uncertainty, it is convenient to distinguish two periods in the development of Keynes' thought. In some of his early writings, he opposed Hume's view according to which all knowledge was demonstrative knowledge: i.e., knowledge conformed by arguments whose premises logically implied the conclusion. Keynes has a wider vision that allows knowledge to be acquired also by means of inductive arguments[4]. To Hume, inductive argument faces an insolvable difficulty: induction is not valid *in principle*. Keynes, however, thought that the problem of induction was merely contingent. "Hume showed –he sustained- not that inductive methods … were false, but that their validity had never been established" (quoted in Meeks, 2003, p. 27). Starting from his critique of Hume, Keynes tried to develop a theory of partial entailment between sentences able to commensurate different non demonstrative arguments according to the support given to their conclusions by the premises. Had he been successful, his logic would have provided a way to distinguish different grades of reasonableness among arguments considered invalid by formal logic[5]. The problem is that he failed to do so.

In *The General Theory*, Keynes introduced the distinction between situations of certainty or risk and situations of uncertainty. This difference is absent in his Treatise on Probability. But, if one thinks that there is continuity in Keynes thinking, a link between both works can be established: under the first type of context agents would be able to argue conclusively, but under uncertainty they could only reason in a non demonstrative way. And given the link between uncertainty and non demonstrative arguments, a successful inductive logic would clear the way for talking of a rank of actions and decisions ordered by their degree of reasonableness. I believe that Dow´s position gains plausibility as a result of her support of both, the continuity thesis and inductive logic[6]. However, I think both thesis are unfounded.

In fact, in the time elapsed between the *Treatise on Probability* and *The General Theory*, Keynes was convinced that probability judgements are subjective, and that there is no way to construct an objective inductive logic (I mean, an inter-subjectively accepted logic of partial implication between sentences). This scepticism forced him to recognize that under uncertainty, where all arguments are of a non demonstrative type, actions can not only be considered rational or irrational, but it is not even possible to order them according to degrees of rationality. Under uncertainty, all behaviour is of a non-rational type. The significance of this point for Dow and Chick's claim concerning dualism makes it advisable to elaborate it a little more.

The dualistic reaction of Keynes to mainstream economics

A quick reading of Chapter 11 of *The General Theory* might suggest that Keynes allows some kind of rational behaviour under uncertainty: in the stock market there are rational people who can calculate the marginal efficiency of different investment projects in the long run, and decide the most profitable way to allocate their capital. But there are also people who do not perform this calculation and invest their time trying to guess the changes in conventional judgement about the valuation of the assets. The former knows the fundamentals; the latter do not have this knowledge. This is the difference between enterprise and speculation. From a social point of view, at least, only the first attitude is rational.

However, what distinguished his analysis from the one performed by mainstream economists is that Keynes does not provide any procedure to select the best behaviour. The "calculus" alluded to is simply a deliberative process, like the one undertaken by a politician. In fact, each decision is as legitimate as any other and there is no way of recognizing in advance which actions are rational and which irrational, or which decisions are more rational than others. Those who – like Dow and Chick – claim the existence of degrees of rationality cannot make this idea operative if uncertainty prevails.

This impossibility is shown clearly in the next chapter of *The General Theory*, where Keynes frankly admits that investment decision are guided by animal spirits. There are no experts under uncertainty. The distinction between professionals and fools is just a rhetorical device in this context. All subjects are non-rational: actions are determined by the state of confidence, emotions and ideals. This shows that – beyond Keynes' own equivocal expressions that may suggest the contrary – *The General Theory is dualistic* in the second of the senses described by Dow: it represents a *dualistic reaction against mainstream dualism*, which limits itself to model those situations in which "rational" and "irrational" may be applied to decisions without ambiguity.

The vague status of anti-dualism

Against this interpretation, Dow and Chick think that there is in *The General Theory* some room for rational decision making. They dismiss the obvious incompatibility among the two collections of Keynes' writings referred above and argue that Keynes effected a methodological revolution at the level of his mode of thought. They believe that Keynes broke completely with the dualistic mode of reasoning, creating a "synthesis" that preserves, even under uncertainty, some form of rational behaviour. Beyond some differences between them regarding how to understand how the synthesis operates[7], both authors agree on the need to restore the "excluded middle" by postulating a scale of rational reactions (the inductive logic tried by Keynes in *Treatise on Probability*).

As long as there is no adequate concept for representing the vague notion of "rational belief", and there also is no clear and articulated inductive logic, the assertion of the possibility of rational behaviour under uncertainty is unsupported. It is an appealing claim, but its meaning and contents are still lacking. Consequently nothing is gained using labels such as “rational” or “irrational” or “more rational than” in reference to behaviour under uncertainty. In this context their application is beside the point. It is like predicating “polite” for natural numbers (even if there were grades of politeness, such a scale is of no use regarding natural numbers). To insist on applying the predicate “rational” to any behaviour in any context is a category mistake. As Arrow has said, rationality is not an entirely individual matter; it is context-dependent, and this means that there could be situations in which it is not defined[8]. I suggest that calling such contexts “uncertain” would avoid many linguistic discussions.

Political risks of “vindicatory rationalism”

Some Keynesians proposed the imposition of a tax ad-valorem on financial transactions, which, allegedly, would reduce volatility in financial markets. This advice is based in those assertions of Keynes’ already examined. Particularly, in his distinction between investors and speculators. The tax, they have said, would discourage the participation of amateurs, thus increasing the rationality of decisions and giving more stability to transactions[9].

Davidson (1998) discussed an empirical study about New York’s stock market written by Jones and Seguin, which contradicts the (allegedly) Keynesian thesis that greater transaction costs will reduce volatility improving the rationality of the decisions undertaken. The study shows the contrary: a reduction in transaction costs is associated with a *decline* in volatility. In his comment, Davidson rejected the interpretation of Keynes advanced by the “old and new Keynesians” as mistaken and sustained that Keynes’ position is indeed perfectly compatible with the empirical results showed by Jones and Seguin.

In Davidson´s terms, these “Keynesians” assume ergodicity, which means that, based on available information, agents *would be able* to form “right” expectations (rational beliefs) about the future profitability of their actual investment decisions. Experts or professional investors can achieve this result. However, there is a larger number of amateurs who do not perform this calculus and speculate through very short run transactions, generating instability. To go back to stability, these “Keynesians” propose the tax designed to reduce the number (and, consequently, the power) of irrational people[10].

According to Davidson, the *true* Keynesian thesis states that under uncertainty the ergodic axiom is no longer valid, and nobody can use past experience to form right expectations about the future (and, consequently, nobody can pick up the rational or more reasonable decision beforehand). However, although there is no connection between participants’ rationality and stability of the stock market, there is indeed an important connection between the *number* and *diversity* of participants. What brings stability to investment market is the diversity of opinions, not the prevalence of rational decisions. As long as the number and diversity of agents are positively correlated, the recommended tax on transactions would have consequences exactly opposite to the ones pursued by those who advocate it. To achieve stability, what is needed is to augment the number of participants, not to reduce it. Incidentally, this makes it clear that the study performed by Jones and Seguin fails to provide empirical evidence against Keynes (on the contrary), but contradicts the mistaken interpretation of Keynes performed by old and new Keynesians.

Conclusion

The concepts of dualism and anti-dualism proposed by Dow, and adopted by Chick, are confusing and too broad to be useful. They do not make any distinction between what in the language of the old logic are called contrary and contradictory, so they conflate “rational – irrational” with “rational – non rational”, which, as we have showed, are vitally different. The anti-dualism they promote assumes that every pair of duals has a higher concept (the Synthesis) that denies each member of the pair but, at the same time, conserves and supersedes both of them. This philosophical decree is assumed to be valid for any context, and, in the particular case of the dual “rational – irrational”, it impelled them to look for some form of rationality even under uncertainty. This vision, although inspired by the early work of Keynes, is not present in *The General Theory* and is asserted by Dow and Chick without the support of a clear and articulated inductive logic. This is potentially dangerous because it may lead to wrong economic policies.

Endnotes

1. Dow sees duals everywhere: “deduction-induction”, “conceptual knowledge – observation”, “analytic – synthetic” (Dow, 1998, pp. 24, 26 y 27), “certainty-ignorance”, “rationality-irrationality” (Chick and Dow, 2000, on line).

2. To avoid unnecessary complications I will not consider here the case of certainty.

3. “While Cartesian/Euclidean thought represents the choice of focusing exclusively on certain (at least in principle) knowledge, Babylonean thought represents the choice of building up rational grounds for beliefs in propositions, even if most of the underlying knowledge is held with uncertainty. This indeed is how Keynes … understands how knowledge is in general built up as a basis for action; most propositions are believed to be known, subject to uncertainty of various degrees which are unquantifiable” (Dow, 1998, p. 18). The various degrees by which the premises of an argument support the conclusion are not only unquantifiable, but in most cases (and certainly in those economic decisions that really matter) are not even comparable.

4. “He rejected the dominant view, which came from Hume, that only logically demonstrable arguments can claim validity, to assert the claim of probabilistic knowledge as the basis for rational action” (Chick, “Keynes, John Maynard (1st Baron)”, on line).

5. “In the *Treatise on Probability*, Keynes …. sought a logic which would provide reasoned grounds for belief in propositions, as a basis for action where certain or complete knowledge is only a special case and is normally not available” (Chick and Dow, 2000).

6. It is Chick’s position too. “Keynes argues (that) there are many circumstances amenable to systematic analysis even in these conditions (uncertainty). We need not be paralysed by inaction or resort to irrational behaviour. Clues exist which may guide rational action in some (but not all) cases, and repeated experience from these clues, while not definitive, add to what Keynes called the ‘degree of rational belief’ in the connection between an action and outcome which the agent expects”. On this basis she could say that “he accepted fundamental uncertainty but found a way to avoid the subjectivism, irrationalism or nihilism which for others logically follows” (Chick, “Keynes, John Maynard (1st Baron)”, on line).

7. According to Chick, the dualist opposes reason to intuition (or emotion), but the anti-dualist brings together both kinds of mental states. She understand that Keynes describes the rational aspects of investment decisions in Chapter 11 of *The General Theory* and its irrational aspects (animal spirits and states of confidence) in Chapter 12. The synthesis would consist in endowing agents with both types of dispositions: cold calculation and hot decisions. She regrets that "the theory of investment … has often been interpreted dualistically. A dualist sees the emphasis on animal spirits in Chapter 12 as invalidating the discussion of rational calculation in Chapter 11. But it is perfectly possible to imagine that someone carries out the calculations and, being still very uncertain, opts to go ahead with the project anyway" (Chick, 2002). What does it mean to say that someone can calculate the marginal efficiency of a unit of capital under consideration and, at the same time, assert that he is very uncertain?

8. “I want to stress that rationality is not a property of the individual alone, although it is usually presented that way. Rather, it gathers not only its force but also its very meaning from the social context in which it is embedded. It is most plausible under very ideal conditions. When these conditions cease to hold, the rationality assumptions become strained and possibly even self-contradictory” (Arrow, 1987, p.201).

9. “Stiglitz …. claims that a small transactions tax has a strong deterrent effect primarily on short-term speculators. The tax will not be a deterrent to long term asset holders who are rational market participants and who base their trading on fundamentals . . . and are willing to wait a long time to realize a return. Rational market participants therefore do not change their already optimal behaviour if a transaction tax is imposed” (Davidson, 1998, on line).

10. “Since short run speculation trading is attributed primarily to the action of fools (noise traders), they interfere with the efficient capital allocation function of financial markets. The tax, by making it more costly for fools (as well as for all other mortals) to engage in short-run financial market activity therefore improves the efficiency of financial markets” (Davidson, 1998, on line).

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(Un)Real Criticism

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Reading the work of Tony Lawson and the growing literature on critical realism and economics, I am impressed by the power of this "underlaboring" philosophy both to shed light on the methodological problems that beset contemporary mainstream economics and to help create the theoretical space in which we, as heterodox economists, can imagine and develop alternatives to the mainstream. At the same time, I am troubled by the particular way Lawson and other critical realists are endeavoring to fill that space.

Let me put this a different way: Lawson and other critical realists raise a series of pertinent and probing questions concerning the ontological presuppositions of contemporary economic discourse. I am not, however, persuaded by the specific answers Lawson and others give to those questions.

I want to use this essay, then, to explain why I think critical realism—at least Lawson's version of it, as spelled out in *Reorienting Economics*—deserves a great deal of credit for challenging mainstream economics and recognizing the value of heterodox economics, all in the name of "reality." In this, Lawson has established the ground for a new set of conversations in and about economics. He asks those of us who labor in the discipline of economics to become self-conscious about the conceptual schemes and methods we use when we take on the task of analyzing one or another aspect of reality and how those methods are inextricably related to issues of ontology, to how we understand the nature of being. Of particular significance to me, since I have never been much convinced by the ontological schemes presumed within mainstream (neoclassical and Keynesian) economics, Lawson's critical realism asks those of us who do heterodox economics to discuss and debate the general role that reality plays in our work and the particular conceptions of reality with which we conduct our work. How do we conceive of social reality and the relations between the various parts of that reality? What are the notions of subjectivity and identity we deploy in our analyses? What is the relationship between economic discourse and social reality? Instead of ignoring such questions, critical realism places them front and center, and in this has enlivened the conversations within and among the schools of thought that today make up heterodox economics.

I also want to argue that the specific conception of reality put forward by Lawson forecloses another set of conversations. In arguing that economic (and, more generally, social) analysis requires a specific ontology—an independent reality characterized by relations of depth between actual events, practices, and behaviors and underlying rules, codes, and structures, and much more—critical realism precludes a productive engagement with the constitutive effects of different economic discourses. It also leaves unexamined the existence of other—particularly, Marxian and postmodern—ontologies that have been developed and proven to be quite useful in recent years.

Economic and Social Reality

While in much of this essay I adopt a critical stance toward *Reorienting Economics*, I want to leave no doubt that I am quite sympathetic to a great deal of Lawson's work, and to critical realism more generally. And that's the case not only on strictly theoretical issues. In my view, credit should also be given to Lawson for the ways he has opened his Routledge book series to perspectives other than those of critical realism and the extent to which he has demonstrated, in contrast to many other economic methodologists these days, an interest in and a clear partisanship in favor of nonmainstream—feminist, Post-Keynesian, institutionalist, and other—approaches to economic analysis.[1]

My interest in and support for Lawson's version of critical realism runs through a number of other themes and issues. For example, the extent to which the "ontological turn" brings discussions of social reality back into economics can only have a salutary effect. This is especially true since Lawson (as other critical realists) avoids the kind of naïve empiricism that still pervades much economic analysis, both mainstream and heterodox. (Generally but not always, an issue to which I return below.) The complexity and "messiness" of reality remind all of us that the theories we develop always leave something out; there is always a "remainder," which cannot simply be dismissed as unimportant or extraneous to our analyses of history and society. The "fullness" of material reality thus makes us suspicious of any attempt to derive a single order, whether a Subject or an Origin, that can be said to govern or give rise to—that can account for every dimension of—what we have before us. Invoking reality in this way allows us to raise questions about, and to pose alternatives to, both the theoretical models and policy prescriptions of our mainstream counterparts.[2]

There is another sense in which putting reality up front aids us in confronting mainstream economics and elaborating our own approaches to economic analysis and policy. If our conception of social reality is such that the economy is "open" with respect to other social spheres and practices—such that, for example, economic events and practices are affected by and spill over into culture, politics, and so on, and no strict lines can be drawn between these areas—then the kinds of theories and policies advocated by many mainstream economics, which presume a more or less isolated economy, can be challenged. Two particular examples might help to illustrate this point. Microeconomic analyses of decisionmaking often presume that individuals will make rational decisions, unaffected by the "real" values (such as fairness and justice) or knowledges (including whether or not a decision is warranted or even possible) such agents hold. Similarly, if for a particular country a mainstream economist conducts a macroeconomic analysis, which uncovers an imbalance for which they propose a currency devaluation (or some such measure) as the solution, "reality" tells us that those with little or no power (women, workers, the unemployed, and so on) may be and often are adversely affected by such a policy. In such cases, reality can be used to complicate, undermine, and/or transform the usual pronouncements of mainstream economists.[3]

But, of course, Lawson claims more than that reality be brought to the forefront, that we confront head-on the twin challenges of making sense of and intervening to change contemporary social reality. He argues that the protocols of science require that reality be conceived in a particular fashion. In this arena, too, I find much to commend in his approach. A "social world structured by social rules or codes" that is "continuously reproduced or transformed"; social practices that are both "highly, and *systematically*, segmented or differentiated" and "constitutively other-oriented"; social reality as a "process" of becoming; social agents that have consciousness who, at the same time, are often engaged in "human doings that are carried out without being premeditated or reflected upon"—these and other attributes of the ontology elaborated by Lawson (in *Economics and Reality* as well as in *Reorienting Economics*) are exactly the kinds of things I emphasize in my research and teaching (both inside and outside the university), in contrast to many of the ways reality is depicted in and enforced by mainstream economics.

Reality and Science

If Lawson stopped there, then I would have not have cause to criticize his approach (except, perhaps, for quibbles around the edges). But then his discussion of ontology wouldn't carry the force of critical realism. Because Lawson both wants to accord a particular status to this ontology and, following on that, to attribute to it a structure of "depth" or verticality. I (and I presume others) find both of these arguments problematic.

Lawson contends that ontology is important because science demands it—and the particular ontology he describes is said both to rule out the formalist protocols of mainstream economics and to accord with his preferred "contrastive explanation" approach to economic and social science. Once again, I find myself sympathetic with the questioning (particularly of the fetishism of formal, including mathematical, models) but not with the answer.[4] For the approach Lawson adopts is to develop a particular definition of the goals and methods of science—to identify "event regularities," to form causal hypotheses to explain such regularities, and to choose between competing hypotheses—and then to indicate what reality must look like in order to follow the protocols of such a conception of science.

The result is that, instead of putting reality at the forefront, it is science—and a specific understanding of science—that governs everything else. The ontological turn is, in the way I read it, actually a turn to science. The emphasis on reality is further undermined by Lawson's frequent references to a kind of common sense as the warrant for his assertions about reality. *Reorienting Economics* is replete with such phrases as "we all act on it" (p. 33), "highly generalized feature of experience" (p. 38), "we all, it seems have" (p 46), and "generalized fact of experience" (pp. 51 and 85). Here, in an approach eerily reminiscent of empiricism, the requirements of science (reality must be structured in a specific way for science to work) are shunted aside in favor of the shared observations of the scientists (who are presumed to agree that reality looks such and such a way).[5]

My point is not to argue that Lawson is being inconsistent, either in moving from reality to science or from the protocols of science to commonsensical empirical observations. But I do want to point out that Lawson's moves are not the only ones available to us. For example, if we want to place reality at the center of our work, then why must the protocols of science dictate the rules reality must follow? Why should reality behave in a manner that fits a so-called scientific method? If reality looks different—if it doesn't seem to match the particular model or concepts we are using, if there is something left over or unaccounted for—then why not change the science?

In the end, that's precisely the argument Lawson uses to rule out mainstream economics and to embrace heterodox economics: the former can't account for reality (at least as Lawson understands it) while the latter can. Moreover, Lawson considers the different schools of thought that make up heterodox economics to be merely different perspectives on—different questions about, different ways of making sense of—a common reality. But the only way this approach can work is if social reality itself is taken to be both independent and singular: independent of the way we think about it, and common to all forms of economic and social analysis.

Marxism and Postmodernism

There are many alternatives to the way Lawson poses the problem of ontology. The two I have in mind, both of which question the independence and singularity of reality, are associated with Marxism and postmodernism (neither of which receives but brief mention in *Reorienting Economics*).

If Lawson's approach hinges on the idea that social reality is independent of the process of theorizing, the Marxian tradition emphasizes the dialectical, interdependent nature of that relationship. Without entering into unnecessary detail, what this means is, on one hand, theory and social reality are seen to be mutually constitutive and, on the other hand, the conception of reality produced by the process of theorizing is considered to be distinct from reality itself. The mutual constitutivity of theory and reality is a way of focusing attention on the role that each plays in determining the other: changes in society lead to changes in theory, and vice versa. Thus, for example, social reality contains the conditions of existence of economics (both the discipline as well as individual schools of thought) and, in turn, the process of economic theorizing affects—constitutes, reproduces, changes—the society within which such theorizing takes place. This is not to say there is a simple, one-to-one correspondence between the two (as is often presumed in deterministic renditions of Marxism, according to which the emergence of capitalism leads to the birth of economics, or different stages of capitalism give rise to different economic theories). But it does place emphasis, in a way that Lawson does not, on how changes in one lead to changes in the other, in a never-ending pattern of interdependent influence and transformation.[6]

The contrast does not end there. Marxists also make a distinction between the thought-concrete and the concrete-real, between the conception of social reality produced in and by the process of theorizing and the social reality within which that process takes place.[7] The two are not the same. From a Marxian perspective, what social scientists (including economists) do is produce a conception of social reality in thought, and these thoughts are not to be conflated with the reality that exists outside of thought; they are literally the appropriations *within thought* of an external social reality. Thus, in a classical Marxian formulation, the "movement from the abstract to the concrete" is a process that takes place entirely within thought—the goal of which is to produce a more concrete analysis of society (or of some part thereof) than what one began with. It is more concrete in the sense that it includes more determinations; it takes into account more factors that are constitutive (and, of course, constituted by) the concepts under analysis. It makes no sense, then, to imagine or to specify a relationship of approximation or correspondence between the product of theorizing and the social reality that exists "out there," outside theory.

The postmodern way of handling this problem is to refer to the discursive construction of social reality.[8] Again, proceding at a relatively general level, postmodernism emphasizes both the way different social discourses produce different social realities and the idea that social reality itself comprises social agents and entities that use different discourses to construct the reality in which they exist. Thus, there are two, different but related, senses in which the economy can be said to be discursively constructed. First, different economic theories—mainstream and heterodox, from neoclassical to Marxian—produce different conceptions of economic and social reality. Economists literally see and analyze different economies, according to the discourses (or paradigms or theoretical frameworks) they use. And such "economic realities" may be and often are radically different and incommensurable, produced and elaborated according to different concepts and conceptual strategies. Thus, to choose but one example, neoclassical economists perceive an economic reality characterized by rational choices, factor payments, and equilibrium whereas Marxian economists see commodity fetishism, exploitation, and contradiction. And, from a postmodern perspective, there is no transdiscursive or nondiscursive standard whereby such different realities can be validated or adjudicated (although, of course, such judgments often do take place *within* particular discourses, leading to quite different conclusions).

The second sense in which postmodernists view the economy as being discursively constructed pertains to economic events and practices themselves. The idea here is that economic and social discourses—not just academic or scientific discourses but also "everyday" discourses, about the economy and much else—affect the way economic agents behave, institutions operate, and events occur. And, again, different discourses will have different effects on such behaviors, institutions, and events. The discourses I have in mind run the gamut from ways of making sense of desire and labor (particulary with respect to economic agents) through accounting conventions and notions of relevant stakeholders (in the case of economic entities such as corporations and international trade organizations) to the pronouncements of monetary authorities and corporate officials (which affect the movements of interest rates and prices of equity shares). The point is that the economy—specific parts or sectors as well as the economy as a whole—will be affected by which discourses are present, and it is important to analyze such discourses in order to understand economic reality.

Put the two together—call it postmodern Marxism—and ontology acquires a status quite different from the one outlined by Lawson. While a clear distinction is made between social reality and the discourses about that reality, that's just the beginning of the story. It then becomes important to recognize the complex ways social reality has an impact on social (including economic) discourses, on how those discourses affect social reality, and on how social reality itself is constituted by both academic and nonacademic discourses. What this means is not only are discourses about the economy influenced in important ways by the practices and discourses in the wider society; it also means that economic discourses are "performative," in the sense that economic agents and institutions are constituted—brought into being, reproduced and changed—in and through the ideas produced within economics. Thus, for example, the "language of class" that characterizes Marxian economics serves both to highlight class processes and to offer a range of class identities and positions that can be inhabited by social agents.

Critical Ontologies

Not only do Marxism and postmodernism, alone and together, call into question the independence of theory and reality. They also offer ontologies that are quite different from the one Lawson articulates and expounds as the singular reality appropriate for economic science.

The ontologies associated with the Marxian and postmodern methodologies discussed in the previous section are not based on the scheme of verticality or depth that characterizes Lawson's approach. For Lawson, all social systems are composed of "surface actualities" (actual events and states of affairs) and "underlying causes" (such as deeper structures, powers, mechanisms, and so on)—and the point of economic and social analysis is to show how the “deep” causes account for or explain the “surface” events. But what if reality is taken to be a surface, which comprises a wide variety of social agents, processes, and practices, wherein there is no relation of depth or verticality? Does such a horizontal array of elements make economic and social analysis impossible? The Marxian tradition has offered up one way of making sense of such a social reality: overdetermination.[9] Originally borrowed from Freud’s interpretation of dreams, the concept of overdetermination is a way of producing an ontology wherein relations of depth (such as those between essence and appearance or base and superstructure) are discarded in favor of mutual relations of constitution and contradiction. Each problem or event that is under analysis is then seen as being constituted by myriad other aspects of social reality—to be the condensed effect of those other aspects or dimensions—no one of which is accorded causal priority over, or more ontological significance than, any other. It is the totality of such effects—the conditions of existence, in this language—that accounts for the contradictory constitution of any particular social actuality. Nothing behind, nothing underneath; no levels of ontological priority or causation. Just the constant movement and change that are occasioned by the overdetermined contradictions, the uneven pushes and pulls, that define each object.

What then of the rules of conduct, power, mechanisms, and so on that Lawson attributes to a deeper or transcendental level of reality? From a Marxian perspective, they are present within the effects of the various processes and practices that make up social reality. Even stronger: they are nothing but the presence of those effects. Thus, for example, the rules of exploitation are contained within the practices whereby surplus labor is appropriated from the direct producers, practices that are themselves the overdetermined result of the other aspects of the social totality—economic, political, and cultural—within which that exploitation takes place. And it is that contradictory social reality that gives rise to practices of exploitation as they exist as well as to the emergence of other, nonexploitative class practices. It in this sense that the flat, horizontal, surface ontology of Marxism provides the basis for a critical analysis of reality, including a project of emancipation.

Postmodernism also suggests alternatives to the vertically oriented ontologies of economic modernism.[10] Indeed, much postmodern critique has taken the form of a refusal or subversion of the idea that there are essences to be discovered and that appearances are to be probed for the truths hidden beneath the surface. Skeptical of all forms of determinism—whether of necessary cause-and-effect relations or, less strongly, probabilistic patterns that link particular events as causes with other events as effects—postmodernists are inclined toward ontologies characterized by “depthlessness,” and emphasize the randomness of causation and effectivity of chance, the indeterminacy of events, the multiplicity of possible causes, the fluidity of the relationship between seeming causes and their effects, and the reversibility of positions between putative causes and effects. In the particular area of economics, postmodernists are critical of both of the main forms of essentialism: theoretical humanism (according to which social reality can be reduced to and explained in terms of some underlying characeristics of human beings) and structuralism (in which underlying structures can account for and be used to explain social events). The alternative is a surface comprising heterogenous elements—events, actualities, behaviors, flows, connections, and so on—that can be analyzed with alternative notions of causality—juxtaposition, simultaneity, textuality, decentering, and so forth. Based on its refusal of ontological hierarchy in favor of flatness, the goal of postmodern analysis is thus to read the “text” of social reality, to produce a “commentary” on the practices and subjectivities that define that reality.

Again, the conjunction of Marxism and postmodernism has produced alternatives both to mainstream economics and to critical realism—in this case, new ontologies and forms of social analysis. "Postmodern materialism" is one such example.[11] Originally inspired by Althusser's notion of the "aleatory," postmodern materialism was formulated in order to move beyond the systemic treatments associated with traditional Marxism, the homogeneity and fixedness of social reality and the certainty of historical trajectory—and to bring to the fore the more antisystemic elements of the Marxian tradition—the heterogeneity and openness of social reality, the incompleteness of the bourgeois project and the imagining of alternative economic and social realities. On this interpretation, many aspects of Marxian economic and social theory take on a new cast. The specificity of Marx's concept of value, to consider but one instance, instead of being an expression of an underlying "law" of the division of labor (which presumes an aready constituted homogeneity of social subjects, of *homo faber*), is now seen to be a way of focusing on the cultural and political mechanisms whereby diverse communities are stripped of their identities and needs in order to be molded into the subjects of a single economic calculus. Thus, the "economy" would emerge not as a primitive foundation, an independent and singular underlying reality, but as the forced attempt to create a closed space whose principle of existence is based on a negation of social specificity, heterogeneity, and openness.

Similarly, "poststructuralist political economy" is an attempt to rescue the Marxian theory of class from the primacy of the "capitalist totality"— the capitalist system or mode of production, the global capitalist political economy, and so on—itself seen as the expression of an underlying cause (such as the "law of accumulation").[12] A poststructuralist approach suggests a reading of *Capital* that emphasizes class as the discursive entry point of political economy instead of being taken as a given of the social order. Once reliquished from the limitations imposed by a unified, centered ontology, an "accounting for class" suggests both a diverse and differentiated economic landscape—comprising both capitalist and noncapitalist practices and identities—and a field of theory and politics that is open and experimental. In other words, the ontology associated with poststructuralist political economy is characterized not by closure and certainty but by challenges and possibilities. It also clears the way for an active political role for theory in creating the terms in which the identities of subjects are constituted and through which they can create their futures. The result is to defamiliarize existing notions of social reality, to make that reality different from itself.

Critical Thought and Realism

My aim in this brief essay is not to elaborate or defend alternatives to critical realism in any detail. I merely want to indicate that alternatives to the ontology proposed by Tony Lawson, in *Reorienting Economics* and elsewhere, have been developed within heterodox economics, including Marxism and postmodernism. These alternative ontologies have led to projects of economic and social analysis that are not only critical of mainstream economics but quite productive in their own right.

And I certainly don't want to argue that the alternative conceptions of ontology I have mentioned are any more "real" than the one that can be found in Lawson's work. While I share with Lawson the idea that ontology is important, both for the critique of mainstream economics and for the flourishing of heterodox economics, I admit to being skeptical about the project of finding or producing a single ontology that will serve as the shared foundation of the various schools of thought that have come together in the post-autistic economics movement. In my view, we need to do everything within out grasp to keep critical approaches to economics alive by making reality as unreal as possible.

Acknowledgement

I want to express my appreciation to Edward Fullbrook not only for the invitation to participate in this symposium (and his graciousness and patience in waiting for my contribution) but also for all the work he has done to keep the post-autistic economics movement alive. I also want to thank Antonio Callari for his comments on a previous draft.

Endnotes

1. Disclosure: a volume I co-edited with Stephen Cullenberg and Jack Amariglio, *Postmodernism, Economics, and Knowledge* (2001), as well as another to which I contributed (Garnett 1999) were published, with Lawson's encouragement, in the Economics as Social Theory series.

2. I take this to be one of the main points raised by the students who initiated the post-autistic movement, in France, England, and the United States. See the statements and manifestos reprinted in Fullbrook (2003).

3. In the United States right now, there is a particular poignancy to siding with "reality-based" arguments against so-called "faith-based" ones. This is the case as much in the discipline of economics as in the wider society.

4. See, e.g., my critique of the use of mathematical models in Marxian economics (Ruccio 1988; Ruccio and Amariglio 2003, especially chap. 1).

5. Antonio Gramsci (1991) argued that common sense contains a "specific conception of the world" and that "in acquiring one's conception of the world one always belongs to a particular grouping which is that of all the social elements which share the same mode of thinking and acting" (324). Clifford Geertz (1983), for his part, reminds us that such common sense, a set of presumably shared observations about reality, "is not what the mind cleared of cant spontaneously apprehends" but rather "what the mind filled with [historical and cultural presuppositions]. . .concludes" (84). It is, in other words, a historically and culturally specific knowledge—in this case, a local ontology.

6. To be clear, the Marxian tradition admits of many different interpretations. The one I develop here is often referred to as antiessentialist Marxism, associated with the journal *Rethinking Marxism* and the work of Stephen Resnick and Richard Wolff (1987).

7. The difference between the "concrete-in-thought" and the "concrete-real" was made prominent by Louis Althusser (1970, 1977) as a way of distinguishing the method of the "mature Marx" from that of Ludwig Feuerbach.

8. The postmodern approach briefly summarized in the text is developed at some length by Ruccio and Amariglio (2003). It is also more or less synonymous with poststructuralism (Amariglio 1998) and deconstruction (Ruccio 1998). See also the different interpretations of postmodernism with respect to economics in Cullenberg et al. (2001).

9. See, e.g., the pioneering contribution of Resnick and Wolff (1987).

10. Within social theory, postmodern ontologies have been developed perhaps most prominently within feminism, especially with respect to the gendered body. See, e.g., the work of Judith Butler

(1990, 1993), Jane Flax (1990, 1993), and Elizabeth Grosz (1994). Gillian Hewitson (1999) and Suzanne Bergeron (2004), among others, have developed similar arguments with respect to economic discourse.

11. The concept of postmodern materialism and its effects on social analysis are elaborated by Ruccio and Callari (1996).

12. This view is developed at length in the essay by Gibson-Graham et al. (2001). On the theoretical and political problems created by an ontology defined solely in terms of capitalism—what one might refer to as capitalocentrism—see Gibson-Graham (1996) and Ruccio and Gibson-Graham (2001).

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The manner in which the author is expounding his question may prevent a wider acceptance of ethics, laws and rules bequeathed to humanity by its religions. The discussion of the question would be more fruitful, if it would be formulated: *"Can economics incorporate or be based on economics-related teachings appearing in religious texts?"*

Koran and other Islamic religious texts, Biblical texts, in particular the Pentateuch (Torah), almud, as well as texts of other religions comprise a wealth of economics-related laws, rules, verdicts and other forms of judgment, some of which have found their place in modern secular codices and constitutions, and can still be incorporated in others.

It is immaterial whether or not the economics-related teachings appearing in religious texts have been imparted to prophets by God, other revelations, or are the fruit of human wisdom. What should be discussed is which ones and to what degree they fit the economic life of the 21st century.

A comparative study would, undoubtedly, reveal that such texts associated with different religions have in fact much in common.

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